OFFICIAL STATEMENT
Dated March 20, 2003

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS
Moody's: "Aa2"
S&P: "AA+"
Fitch: "AA+"
(See "RATINGS" herein)

In the opinion of Co-Bond Counsel (named below), assuming continuing compliance by the City (defined below) after the date of issuance of the Bonds (defined below) with certain covenants in the ordinances described herein and subject to the matters discussed herein under "TAX MATTERS", interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as described herein under "TAX MATTERS," corporations (see "TAX MATTERS" herein.).

$40,905,000
CITY OF SAN ANTONIO, TEXAS
GENERAL IMPROVEMENT
REFUNDING BONDS, SERIES 2003

Date: May 1, 2003 **Due: August 1, as shown herein**

The $40,905,000 "City of San Antonio, Texas General Improvement Refunding Bonds, Series 2003" (the "Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended; the Home Rule Charter of the City; and an ordinance adopted by the City Council of the City on March 20, 2003 (see "THE BONDS – Authority for Issuance" herein). Proceeds of the Bonds will be used to (i) discharge and refund certain outstanding tax-supported debt of the City described herein and (ii) pay the costs of issuing the Bonds (see "PURPOSE AND PLAN OF FINANCING" herein).

Interest on the Bonds will accrue from May 1, 2003 and will be payable on February 1 and August 1 of each year, commencing August 1, 2003, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds are payable from ad valorem taxes levied against all taxable property located within the City, within legal limitations, including the constitutional tax limit of $2.50 per $100 of assessed valuation (see "THE BONDS - Security" herein).

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS.

The Bonds are offered for delivery, when, as, and if issued and received by the initial purchasers thereof (the "Underwriters") and subject to the approving opinion of the Attorney General of the State of Texas and the delivery by Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas, as Co-Bond Counsel, of their legal opinion. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, Akin Gump Strauss Hauer & Feld LLP and Loeffler, Jonas & Tuggey, L.L.P. (see "LEGAL MATTERS" herein). It is expected that the Bonds will be available for initial delivery through the services of DTC on May 8, 2003.

RAMIREZ & CO., INC. **UBS PAINEWEBBER INC.**

A.G. Edwards & Sons, Inc. **Southwest Securities** **Southwestern Capital Markets, Inc.**

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, AND CUSIP NUMBERS
(Due August 1)

$40,905,000
General Improvement Refunding Bonds, Series 2003

Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. [1]
2004	$3,700,000	3.000%	1.200%	796236 ZY 6
2005	2,470,000	2.750	1.430	796236 ZZ 3
2006	3,355,000	3.000	1.780	796236 A2 3
2007	3,345,000	3.250	2.200	796236 A3 1
2008	3,660,000	4.000	2.580	796236 A4 0
2009	5,760,000	5.000	2.930	796236 A5 6
2010	1,235,000	3.500	3.230	796236 A6 4
2011	2,405,000	3.750	3.470	796236 C5 4
2012	4,470,000	5.000	3.620	796236 C6 2
2013	4,785,000	5.000	3.740	796236 C7 0
2014	5,720,000	5.000	3.860	796236 C8 8

(1) CUSIP numbers have been assigned to the Bonds by Standard and Poor's CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

NO REDEMPTION: The Bonds are not subject to redemption prior to their stated maturities (see "THE BONDS – Redemption Provisions" herein).

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CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Ed Garza, Mayor	5 Years, 9 Months	May 31, 2003	Land Planner
Bobby Perez, District 1	3 Years, 9 Months	May 31, 2003	Attorney
John H. Sanders, District 2	1 Year, 9 Months	May 31, 2003	Retired, Texas Workforce Commission
Antoniette (Toni) Moorehouse, District 3	1 Year, 9 Months	May 31, 2003	Non-Profit Programs Management
Enrique (Kike) Martin, District 4	1 Year, 9 Months	May 31, 2003	Contracting Security Officer, USAFR
Nora X. Herrera*, District 5	1 Month	May 31, 2003	Councilmember
Enrique M. Barrera, District 6	3 Years, 2 Months	May 31, 2003	Retired, Texas Workforce Commission
Julián Castro, District 7	1 Year, 9 Months	May 31, 2003	Attorney
Bonnie Conner, District 8	3 Years, 9 Months	May 31, 2003	Real Estate Management
Carroll Schubert, District 9	1 Year, 9 Months	May 31, 2003	Attorney
David Carpenter, District 10	3 Years, 9 Months	May 31, 2003	Small Business Owner

*Appointed February 6, 2003 by the City Council to fill a vacancy for the duration of an unexpired term left after the resignation of a Councilmember.

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Terry M. Brechtel	City Manager	12 Years, 2 Months	1 Year, 11 Months
J. Rolando Bono	Deputy City Manager	25 Years, 4 Months	1 Year, 11 Months
Melissa Byrne Vossmer	Assistant City Manager	4 Years, 10 Months	4 Years, 10 Months
Travis M. Bishop	Assistant City Manager	24 Years, 6 Months	3 Years, 1 Month
Christopher J. Brady	Assistant City Manager	6 Years, 8 Months	3 Years, 1 Month
Jelynne L. Burley	Assistant City Manager	18 Years, 11 Months	9 Months
Frances A. Gonzalez	Assistant to the City Manager	18 Years, 5 Months	2 Years, 5 Months
Roland Lozano	Assistant to the City Manager	22 Years, 8 Months	1 Year, 11 Months
Erik J. Walsh	Assistant to the City Manager	8 Years, 9 Months	1 Year, 11 Months
Andrew Martin	City Attorney	11 Months	11 Months
Yolanda Ledesma	Acting City Clerk	31 Years, 5 Months	4 Months
Louis A. Lendman	Director of Management and Budget	14 Years, 6 Months	2 Years, 3 Months
Thomas G. Wendorf	Director of Public Works	3 Years, 11 Months	2 Years, 2 Months
Milo Nitschke	Director of Finance	8 Years, 5 Months	2 Years

CONSULTANTS AND ADVISORS:

Co-Bond Counsel — Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas

Co-Certified Public Accountants — KPMG L.L.P., San Antonio, Texas; Leal & Carter, P.C., San Antonio, Texas and Robert J. Williams, CPA, San Antonio, Texas

Co-Financial Advisors — Coastal Securities, San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee by the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETION OF SUCH INFORMATION.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE ISSUE AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Neither the City, the Co-Financial Advisors, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

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TABLE OF CONTENTS

OFFICIAL STATEMENT
Relating to the
$40,905,000
CITY OF SAN ANTONIO, TEXAS
GENERAL IMPROVEMENT
REFUNDING BONDS, SERIES 2003

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas General Improvement Refunding Bonds, Series 2003" (the "Bonds") in the principal amount of $40,905,000. The Bonds are being issued in an amount sufficient to discharge and refund certain outstanding tax-supported debt of the City hereinafter described in Schedule I hereto (the "Refunded Obligations") and pay the costs of issuing the Bonds.

There follows in this Official Statement descriptions of the Bonds, the Ordinance (defined herein), and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204, or from the City's Co-Financial Advisors, Coastal Securities, 909 Northeast Loop 410, Suite 300, San Antonio, Texas 78209, and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1485, San Antonio, Texas 78205, through electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date. The information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

PURPOSE AND PLAN OF FINANCING

Purpose of the Bonds

The Bonds are being issued to provide funds to (i) refund the Refunded Obligations and (ii) pay the costs of issuing the Bonds.

Sources and Uses of Funds for the Bonds

The net proceeds from the sale of the Bonds, including an original issue premium, if any, will be applied, together with a cash contribution of the City, to fund the Escrow Fund (defined herein) for the redemption, discharge, and net defeasance of the Refunded Obligations, and to pay certain costs of issuance.

The following is a summary of the application of the proceeds of the Bonds, exclusive of accrued interest, and the sources and uses of funds:

Sources of Funds	
Principal Amount of the Bonds	$40,905,000.00
Original Issue Premium	2,994,934.55
City Contribution	555,000.00
Total Sources of Funds	$44,454,934.55
Uses of Funds	
Escrow Fund Deposit	$44,049,652.44
Costs of Issuance	167,881.48
Underwriters' Discount	237,400.63
Total Uses of Funds	$44,454,934.55

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled payment date from funds to be deposited with The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida (the "Escrow Agent") pursuant to the escrow agreement, dated as of the date hereof (the "Escrow Agreement"), by and between the City and the Escrow Agent.

The ordinance authorizing the issuance of the Bonds adopted by the City Council of the City (the "City Council") on March 20, 2003 (the "Ordinance") provides that the City will deposit certain proceeds of the sale of the Bonds, along with the City's cash contribution, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations and will be used to purchase Government Securities. Such maturing principal of and interest on the Government Securities will not be available to pay the debt service requirements on the Bonds.

Simultaneously with the sale of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity, on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

Grant Thornton LLP, Minneapolis, Minnesota, independent certified public accountants, will verify pursuant to a written report (the "Report") the calculations which indicate that at the time of delivery of the Government Securities and cash to the Escrow Fund, the same will mature at such times and yield interest in such amounts, with other available funds, so that sufficient money will be available from the maturing principal and interest thereof to pay, when due, the principal of and interest on the Refunded Obligations (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein).

By the deposit of the Government Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the net defeasance of the Refunded Obligations pursuant to the terms of the ordinance authorizing the issuance thereof. It is the opinion of Co-Bond Counsel that, as a result of such defeasance, the Refunded Obligations will no longer be payable from the City's collection of ad valorem taxes, but will instead be payable solely from the principal of and interest on the Government Securities and cash on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the City for the purpose of a limitation of indebtedness or for any other purpose (see "APPENDIX C - FORM OF OPINION OF CO-BOND COUNSEL" herein).

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment.

THE BONDS

General Description

Interest on the Bonds accrues from May 1, 2003 (the "Dated Date") and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2003. The principal of and interest on the Bonds is payable in the manner described herein under "THE BONDS - Book-Entry-Only System". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by the Paying Agent/Registrar (defined herein), as of the 15th day of the month next preceding such interest payment date by check, mailed first-class postage prepaid, to the address of such person on the security register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day, which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance

The Bonds are issued pursuant to the Home Rule Charter of the City (the "City Charter"); the general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended; and the Ordinance. The proceeds of the Bonds will be utilized to redeem, discharge, and defease the Refunded Obligations and pay certain costs of issuance for the Bonds.

Security

Ad Valorem Tax Pledge. In the Ordinance, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the Bonds. As of March 15, 2003, $928,398,108 in principal amount of tax-supported obligations of the City were outstanding prior to the delivery of the Bonds. After effectuating delivery of the Bonds on or about May 8, 2003, the City's outstanding principal amount of indebtedness payable from the ad valorem tax proceeds will be $926,103,108, assuming no other obligations are issued prior to such date.

Tax Rate Limitations. The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's general obligation indebtedness must not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the $2.50 rate for interest and sinking fund purposes; however, the Attorney General of the State of Texas, who must approve the issuance of the Bonds, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collections. In addition, the City has a City Charter limitation on the amount of debt payable from the ad valorem tax proceeds that can be incurred which prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments; exclusive of the debt of any improvement district; and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the Bonds does not violate these provisions.

Redemption Provisions

The Bonds are not subject to redemption prior to stated maturity.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida (the "Paying Agent/Registrar"). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Transfer, Exchange, and Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or

Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. See “Book-Entry-Only System” herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.

Damaged, Mutilated, Destroyed, Lost, or Stolen Bonds

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen Bonds upon surrender of the damaged or mutilated Bonds to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds during the period commencing at the close of business on the Record Date (defined herein) and ending at the opening of business on the next interest payment date.

Defaults and Remedies

The Ordinance does not establish specific events of default or remedies with respect to the Bonds. If the City defaults in the payment of the principal and interest on any Bond when due, or defaults in the observance or performance of any covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, conditions, or obligations. Such right is in addition to any other rights the registered owners of Bonds may be provided by the laws of the State. Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under such ordinances. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of such ordinances, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation debt of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The record date for determining the person to whom the semiannual interest is payable on any interest payment date (the “Record Date”) is the 15th day of the month next preceding such interest payment date, as specified in the

Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may, without the consent of or notice to any registered owners, amend, change, or modify the Ordinance as may be required (i) by the provisions of the Ordinance; (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein; or (iii) in connection with any other change which is not to the prejudice of the registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, change, modify, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, change, modification, or rescission may (i) change the date specified as the date on which the principal of or any installment of interest on any Bonds is due and payable, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds; (ii) give any preference to any Bonds over any other Bonds; (iii) extend any waiver of default to subsequent defaults; or (iv) reduce the aggregate principal amount of Bonds required for consent to any amendment, change, modification, or rescission.

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal thereof plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (i) money in an amount sufficient to make such payment and (ii) Government Securities certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Payment Record

The City has never defaulted in payments on its bonded indebtedness.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC") while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange

Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA". The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent/Registrar, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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FINANCIAL INFORMATION

The following Tables 1A – 6 contain information on assessed valuation, debt payable from ad valorem taxes, estimated debt payable from ad valorem taxes, tax adequacy (indicated interest and sinking fund), ad valorem tax debt principal repayment schedule, and debt obligations – capital leases payable.

Assessed Valuation[1] **Table 1A**

Tax Year 2002 Actual Market Value of Taxable Property		$46,389,957,348
Less:		
Optional 65 Years of Age or Older Homestead Exemptions	$3,355,312,775	
Optional 65 Years of Age or Older Homestead Exemptions Pro-rated	28,949,472	
Disabled/Deceased Veterans' Exemptions	113,745,263	
Historical Property Exemptions	26,278,818	
Historical Preservation Area Exemptions [2]	1,047,522	
Freeport Goods Exemptions	285,997,620	
Article 8, Section 1-d-1 Special Appraisals	250,415,393	
Tax Phase-In Agreements	381,143,224	
Appraised Value Limitations	236,948,805	
Absolute Pro-Rated Exemptions	25,675,335	
Total Exemptions	$4,705,514,227	
Tax Year 2002 Net Taxable Assessed Valuation		$41,684,443,121

(1) See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Tax Year 2002 Net Taxable Assessed Valuation certified by the Bexar Appraisal District (defined herein) as of January 17, 2003.

(2) New exemption effective fiscal year 2003; see "AD VALOREM TAXATION – Historical Preservation Area Exemptions" herein.

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Outstanding Debt Payable from Ad Valorem Taxes and Debt Ratios **Table 1B**

Outstanding Ad Valorem Tax Debt (at 3/15/03)	
Ad Valorem Tax Bonds	$ 711,218,108
Combination Tax and Revenue Certificates of Obligation	211,520,000
Taxable Combination Tax and Revenue Certificates of Obligation	5,660,000
Total Ad Valorem Tax Debt (at 3/15/03)	$ 928,398,108
Less: Refunded Obligations	$ 43,200,000
General Improvement Refunding Bonds, Series 2003	$ 40,905,000
Total Gross Outstanding Ad Valorem Tax Debt[1]	$ 926,103,108
Less: Self-Supporting Debt (at 3/15/03) [2]	15,535,000
Total Net Debt Payable from Ad Valorem Taxes	$ 910,568,108
Interest and Sinking Fund Balance at 9/30/02	$ 69,857,347
Tax Year 2002 Actual Market Value of Taxable Property [4]	$46,389,957,348
Tax Year 2002 Net Taxable Assessed Valuation (100% of Actual Market) [3], [4]	$41,684,443,121
Ratio of Gross Debt to Actual Market Value	1.996%
Ratio of Gross Debt to Net Taxable Assessed Value	2.222%
Ratio of Net Debt to Actual Market Value	1.963%
Ratio of Net Debt to Net Taxable Assessed Value	2.184%
Per Capita Net Taxable Assessed Value [5]	$ 33,316
Per Capita Gross Debt [5]	$ 740
Per Capita Net Debt [5]	$ 728

(1) Includes the Bonds and excludes the Refunded Obligations.
(2) To maintain this debt as self-supporting, payments will be made from the operation of the Parking System and Hotel-Motel Tax Funds. Commencing with fiscal year 2002, the Golf Course Fund is no longer considered a self-supporting debt.
(3) See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures, including determination of net assessed valuation.
(4) Based on Tax Year 2002 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of January 17, 2003.
(5) Based on the City of San Antonio Planning Department estimated population of 1,251,200 for calendar year ending December 31, 2002.

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EXISTING DEBT SERVICE AND PRINCIPAL AND INTEREST REQUIREMENTS

The following table describes the existing debt service, which includes self-supporting debt, upon issuance and delivery of the Bonds.

Principal and Interest Requirements **Table 2**

			The Bonds			
Fiscal Year Ending 9/30	Existing Debt Service[(1)]	Less: Debt Service on the Refunded Obligations	Principal	Interest	Annual Debt Service	Total Debt Service Requirements
2003	$ 66,770,370.00	$ 950,081.25	$ -0-	$ 426,212.50	$ 426,212.50	$ 66,246,401.25
2004	103,673,985.00	6,300,362.50	3,700,000	1,704,850.00	5,404,850.00	102,778,472.50
2005	103,088,585.00	4,946,362.50	2,470,000	1,593,850.00	4,063,850.00	102,206,072.50
2006	100,595,157.50	4,881,750.00	3,355,000	1,525,925.00	4,880,925.00	100,594,332.50
2007	100,291,140.00	4,772,862.50	3,345,000	1,425,275.00	4,770,275.00	100,288,552.50
2008	99,839,920.00	4,976,600.00	3,660,000	1,316,562.50	4,976,562.50	99,839,882.50
2009	97,752,064.38	6,933,000.00	5,760,000	1,170,162.50	6,930,162.50	97,749,226.88
2010	98,398,966.25	2,117,725.00	1,235,000	882,162.50	2,117,162.50	98,398,403.75
2011	98,590,932.50	3,247,200.00	2,405,000	838,937.50	3,243,937.50	98,587,670.00
2012	72,219,843.75	5,220,800.00	4,470,000	748,750.00	5,218,750.00	72,217,793.75
2013	73,382,833.75	5,311,400.00	4,785,000	525,250.00	5,310,250.00	73,381,683.75
2014	56,378,264.38	6,006,000.00	5,720,000	286,000.00	6,006,000.00	56,378,264.38
2015	40,100,483.13					40,100,483.13
2016	35,810,569.38					35,810,569.38
2017	31,667,899.38					31,667,899.38
2018	31,666,041.88					31,666,041.88
2019	29,803,776.88					29,803,776.88
2020	26,455,826.25					26,455,826.25
2021	21,468,272.50					21,468,272.50
2022	19,151,750.00					19,151,750.00
2023	7,451,750.00					7,451,750.00
	$1,314,558,431.91	$55,664,243.75	$40,905,000	$12,443,937.50	$53,348,937.50	$1,312,243,125.66

(1) Excludes the Bonds and the February 1, 2003 debt service payments; includes the Refunded Obligations.

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Tax Adequacy **Table 3**

2002 Net Taxable Assessed Valuation[1]	$ 41,684,443,121
Maximum Annual Debt Service Requirements at Fiscal Year End 9/30/04[2]	$ 102,778,473
Indicated Interest and Sinking Fund Tax Rate	$ 0.2529
Indicated Interest and Sinking Fund Tax Levy at 97.5% Collections	$ 102,784,458

(1) Based on Tax Year 2002 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of January 17, 2003.
(2) Includes the Bonds and excludes the Refunded Obligations.
Note: See "TAX DATA" herein.

Interest and Sinking Fund Management Index **Table 4**

Interest and Sinking Fund Balance at Fiscal Year End 9/30/02	$ 69,857,347
2002 Actual Interest and Sinking Fund Rate	$ 0.2165
2002 Interest and Sinking Fund Tax Levy at 97.5% Collections Produces[1]	$ 87,990,649
Total Available for Debt Service	$157,847,996
Less: Ad Valorem Debt Service Requirements at Fiscal Year End 9/30/03	$ 99,677,233
Estimated Surplus at Fiscal Year End 9/30/03 [1]	$ 58,170,763

(1) Does not include revenues derived from self-supporting debt operations, delinquent tax collections, penalties and interest on delinquent tax collections, or investment earnings.

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Ad Valorem Tax Debt Principal Repayment Schedule **Table 5**

Fiscal Year Ended 9/30	Currently Outstanding Obligations[1]	Less: Refunded Obligations	The Bonds	Combined Principal	Obligations Remaining Outstanding End of Year	Percent of Principal Retired
2003					$928,398,108[2]	0.000%
2003	$43,650,000			$43,650,000	882,453,108	4.713
2004	59,895,000	$ 4,400,000	$3,700,000	59,195,000	823,258,108	11.105
2005	57,073,995	3,255,000	2,470,000	56,288,995	766,969,113	17.183
2006	57,219,113	3,345,000	3,355,000	57,229,113	709,740,000	23.363
2007	64,620,000	3,395,000	3,345,000	64,570,000	645,170,000	30.335
2008	67,480,000	3,760,000	3,660,000	67,380,000	577,790,000	37.611
2009	69,135,000	5,895,000	5,760,000	69,000,000	509,335,000	45.061
2010	72,940,000	1,345,000	1,235,000	72,830,000	435,960,000	52.925
2011	76,765,000	2,535,000	2,405,000	76,635,000	359,325,000	61.200
2012	54,185,000	4,610,000	4,470,000	54,045,000	305,280,000	67.036
2013	58,280,000	4,885,000	4,785,000	58,180,000	247,100,000	73.318
2014	44,135,000	5,775,000	5,720,000	44,080,000	203,020,000	78.078
2015	30,150,000			30,150,000	172,870,000	81.334
2016	27,470,000			27,470,000	145,400,000	84.300
2017	24,790,000			24,790,000	120,610,000	86.977
2018	26,130,000			26,130,000	94,480,000	89.798
2019	25,630,000			25,630,000	68,850,000	92.566
2020	23,560,000			23,560,000	45,290,000	95.110
2021	19,690,000			19,690,000	25,600,000	97.236
2022	18,330,000			18,330,000	7,270,000	99.215
2023	7,270,000			7,270,000	-0-	100.000
	$928,398,108	$43,200,000	$40,905,000	$926,103,108		

(1) Includes the Refunded Obligations and excludes the Bonds.
(2) As of March 15, 2003.

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Debt Obligations – Capital Leases Payable[1] Table 6

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf operations equipment, public works equipment, a high capacity trailer, and a hazardous materials ("HAZMAT") vehicle. Shown below is the gross value of the assets at September 30, 2002. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2002.

Description	Lease Termination Date	Present Value Of Minimum Lease Payments	Amount Representing Interest	Total Future Minimum Lease Payments
Computer, Laptop CDPD	05/01/2005	$ 275,324	$ 13,603	$ 288,927
Computer, Mainframe	11/01/2003	329,204	10,943	340,147
Copier, Print Shop	03/21/2003	37,223	611	37,834
Copier, Standard	09/01/2003	3,758	189	3,947
Document Publishing System	04/01/2007	335,306	41,482	376,788
Fire Personal Protective Equipment	11/01/2005	915,595	86,144	1,001,739
Fire Truck, Aerial	11/01/2005	1,003,909	94,454	1,098,363
Fire Truck, Ladder	05/01/2007	625,477	59,619	685,096
Fire Truck, Platform	05/01/2007	640,258	61,028	701,286
Fire Truck, Pumper	11/01/2003	562,036	21,851	583,887
Fire Truck, Pumper	05/01/2005	1,087,739	53,742	1,141,481
Fire Truck, Pumper	05/01/2005	1,088,022	53,756	1,141,778
Golf Cart Equipment	03/01/2004	65,823	2,437	68,260
Golf Turf Equipment	11/01/2005	294,513	27,709	322,222
Golf Turf Equipment	05/01/2007	198,314	18,903	217,217
HAZMAT Vehicle	05/01/2005	286,104	14,136	300,240
Public Works Equipment	05/01/2007	548,677	52,299	600,976
Trailer, High Capacity	05/01/2007	676,507	64,483	740,990
Total		$8,973,789	$ 677,389	$9,651,178

[1] On February 4, 2003, the City closed a tax-exempt lease/purchase financing in the amount of $4,465,000, with the proceeds therefrom used to acquire various street maintenance equipment, tractor trailers, and a library automation system, and to pay the costs of financing such equipment.

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On May 15, 2001, the City became obligated to pay $14,465,000 in lease revenue bonds issued through the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") to provide funds for the construction of the "One Stop Development Services Center", a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City, and the City agreed to annually appropriate funds to pay lease payments sufficient to pay principal and interest on the bonds when due. The lease commenced on May 15, 2001 and the City has budgeted approximately $1.183 million for lease payments during fiscal year 2003. The table below shows the debt service schedule for the aforementioned bonds. In addition to the debt service on the bonds, the lease payments include other expenses related to the operation and maintenance of the facility.

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2003	$ 535,000	$ 648,173.76	$1,183,173.76
2004	550,000	630,117.50	1,180,117.50
2005	570,000	610,180.00	1,180,180.00
2006	600,000	588,520.00	1,188,520.00
2007	610,000	564,820.00	1,174,820.00
2008	640,000	539,810.00	1,179,810.00
2009	670,000	512,930.00	1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	$13,955,000	$7,304,116.26	$21,259,116.26

AD VALOREM TAXATION

Authority to Levy Ad Valorem Taxes

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is $2.50 per $100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (i) any indebtedness secured in whole or in part by special assessments; (ii) the bonded debt of any improvement district; and (iii) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the Bonds does not violate these limitations. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

Texas Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code, located at Title 1, Texas Tax Code, as amended (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State, including the City. The provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar County Appraisal District (the "Bexar Appraisal District") has the responsibility for appraising property for all taxing units within Bexar County. Two and one-half acres of the City's total area lie in Comal County. The Comal County Appraisal District has the responsibility for appraising property for all taxing units within Comal County. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board.

Once an appraisal roll is prepared and approved by the Bexar Appraisal Review Board, it is used by the City in calculating its tax rates and preparing a tax roll. Assessments under the Property Tax Code are based on 100% of appraised value. The Property Tax Code requires the Bexar Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan shall provide for reappraisal of all real property at least once every three years.

The City, by resolution adopted by its governing body, may require the Bexar Appraisal District to appraise all property within the City or to identify and appraise newly annexed territory and new improvements in the City as of a date specified in the resolution. The City must pay the Bexar Appraisal District for the cost of making such an appraisal. While such a current estimate of appraised value may serve to indicate the growth of taxable values within the City, it may not be used by the City as the basis for the imposition of property taxes.

Under certain circumstances, taxpayers and taxing units (such as the City) may appeal the orders of the Bexar Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Bexar Appraisal District to compel compliance with the Property Tax Code.

Property Subject to Taxation by the City

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible property with a tax status in the City is subject to taxation by the City. Principal categories of exempt property include, but are not limited to, property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; implements of husbandry that are used in the production of ranch and farm products; family supplies for home or farm use; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, certain community housing development organizations' property, and qualified schools; designated historical sites; and tangible personal property not held for the production of income (unless the City elects to tax such tangible personal property).

Residential Homestead Exemptions

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than $3,000 of assessed value. The City currently grants a $60,000 residential homestead exemption only to persons 65 years of age or older effective immediately upon their 65th birthday.

Disabled/Deceased Veterans' Exemptions

The Property Tax Code mandates that a disabled veteran or certain surviving dependents are entitled to an exemption from taxation of a portion of the assessed value of a property he or she owns. The amount of this exemption ranges from $5,000 to $12,000 and the exemption amount is based on the disability rating of the veteran as certified by the Veterans' Administration.

Historical Property Exemptions

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years and, thereafter, will be taxed by the City at 50% of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings meeting the definition of historical sites and having been substantially rehabilitated or restored will, for a period of ten years, retain the property value assessed prior to such rehabilitation or restoration.

Historical Preservation Area Exemptions

The City offers a 20% tax exemption for owner-occupied residences located within new local historic districts. The exemption is effective on the first day of historic district designation and extends for a maximum of 15 years (ten years plus a five-year extension). The purpose of the exemption is to offset any potential property tax increases and to limit gentrification in the district, a term which refers to the effect of forcing lower-income residents in a neighborhood to move, which often includes a higher proportion of elderly residents, because of higher property taxes. Property taxes may or may not increase as a result of historic designation. The Bexar Appraisal District does not automatically increase the assessed valuations of designated properties. Appraisals are based upon real estate market factors that affect consumer demand in an area, of which historic designation is one.

Freeport Goods Exemptions

"Freeport Goods", or goods in transit, include goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products, which have been acquired or brought into the State for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the State within 175 days. As a result of a State constitutional amendment passed by Texas voters on November 7, 1989, Freeport Goods are exempted from taxation. The City has elected to allow the exemption.

Article 8, Section 1-d-1 Special Appraisals

The Property Tax Code also provides special appraisal of open-space land devoted to farm, ranch, or wildlife management purposes on the basis of its productive capacity rather than its market value. If the open space designation is lost by changing the use of the property, the City can impose taxes on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value.

Tax Phase-In Agreements

The City may designate areas within the City as reinvestment zones. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to ten years. Tax phase-in agreements of the City and Bexar County, respectively, are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1991, the City has entered into 52 tax phase-in agreements; 31 are active; 21 have expired or are inactive.

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The following table depicts, as of December 31, 2002, 31 active tax phase-in agreements.

Active Tax Phase-In Agreements

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
SBC/Southwestern Bell Corporation	1994-2003	10	Real @ 100%
Gruma/Mission Foods	1995-2004	10	Real @ 50%
McCarley/Texas Beverages	1995-2004	10	Real @ 50%
Security Capital/Gaylord Containers	1995-2004	10	Real @ 100%; Personal @ 80%
World Savings & Loan	1995-2004	10	Real & Personal @ 100%
York International	1995-2004	10	Real @ 75%
Alamosa/HILP (Westin Riverwalk Hotel)	1997-2006	10	Real & Personal @ 100%
BDS Properties (Diamond Shamrock)	1997-2006	10	Real @ 100%; Personal @ 80%
HBE Corporation (Adams Mark Hotel)	1997-2006	10	Real & Personal @ 100%
Oberthur Gaming Technologies	1997-2006	10	Real @ 100%
Richter's Bakery	1997-2006	10	Real @ 100%; Personal @ 50%
Takata Seat Belts	1997-2006	10	Real @ 100%; Personal @ 50%
Cadillac Lofts	1998-2007	10	Real @ 90%
Frito Lay	1998-2003	6	Real @ 100%; Personal @ 50%
Boeing Aerospace (1)	1999-2008	10	Personal @ 90%
Capital Group	1999-2008	10	Real & Personal @ 100%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Real & Personal @ 100%
Clark American (1)	2000-2005	6	Real @ 100%
ALCOA (1)	2001-2010	10	Real @ 100%
Dee Howard (1)	2001-2010	10	Real @ 100%
Coilplus Texas (1)	2001-2006	6	Real @ 100%
PacificCare Health Systems/Opus South (1)	2001-2006	6	Real @ 100%
Chase Bank Credit Card Services – Phase 1 (1)	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 4 (1)	2002-2011	10	Personal @ 100%
H.B. Zachry (1)	2002-2011	10	Real @ 100%
MedLine (1)	2002-2011	10	Personal @ 100%
Royal Oak Industries (1)	2002-2011	10	Personal @ 100%
United Healthcare (1)	2002-2007	6	Real @ 100%
Chase Bank Credit Card Services – Phase 2 (1)	2003-2012	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 3 (1)	2003-2012	10	Real @ 100%
H.E. Butt Grocery Company	2004-2010	6	Real @ 100%

(1) City policy requires companies receiving a tax phase-in to pay all new employees a living wage.

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Appraised Value Limitations

All real and personal property of the City within Bexar County must be appraised by the Bexar Appraisal District at market value as of January 1 of each year. The City's real and personal property within Comal County is appraised by the Comal County Appraisal District. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board, respectively. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

1. the market value of the property; or

2. the sum of:
   a. 10% of the appraised value of the property for the last year in which the property was appraised times the number of years since the property was last appraised;
   b. the appraised value of the property for the last year in which the property was appraised; and the market value of all new improvements to the property.

Absolute Pro-Rated Exemptions

If the federal government, the State, or a political subdivision of the State acquires title to taxable property, the amount of the tax due on the property is calculated by multiplying the amount of taxes imposed on the property for the entire year by a fraction, the denominator of which is 365 and the numerator of which is the number of days that elapsed prior to the date of the aforementioned acquisition.

Effective Tax Rate and Rollback Tax Rates

The City must annually calculate and publicize its "effective tax rate" and "rollback tax rate." The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or 103% of the effective tax rate until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by submission of a valid petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (adjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Taxpayer Remedies

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the rate of taxation is adopted by the City based upon the taxable valuation of property within the City as of the preceding January 1. The City has executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property taxes are due and payable on October 1 and considered delinquent if not paid by the following January 31. A delinquent tax incurs a penalty of 6% for the first calendar month it is delinquent, plus 1% for each of the following four months, and 2% for the sixth month it is delinquent, for a total of 12%. A delinquent tax also incurs interest at the rate of 1% per month until paid in full. If a tax is not paid before July 1 of the year in which it becomes delinquent, the tax incurs an additional fee of up to 20% to offset the costs of collection.

The City does not allow for discounts for early payment, but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City also allows for installment payments for homeowners who qualify for the residential homestead exemption (one-fourth before January 31, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1).

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem a residence homestead property within two years after the purchaser's deed is filed for record) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Tax Increment Reinvestment Zone Financing

The City has approved "Guidelines and Criteria" for the utilization of Tax Increment Financing ("TIF") and the creation of Tax Increment Reinvestment Zone ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs related to economic development, commercial, and residential projects. As of December 31, 2002, 13 TIRZs have been approved and one TIRZ has been dissolved. The active TIRZs are also referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, and North East Crossing Projects. The TIRZs were established in order to finance the costs of public improvements to be made in each of the TIRZ which were created for various purposes, including the construction of single family and multi-family residential housing and commercial development projects, and included reimbursing developers from TIRZ revenues for the costs of public improvements, as well as, in the Houston Street TIRZ, the issuance of certificates of obligation by the City payable from the Houston Street TIRZ revenues to pay a portion of the costs of public improvements.

Tax Data **Table 7**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [(1)]	Tax Rate	Tax Levy	Percent Collections Current	Percent Collected Total
1993	1994	$22,480,584,590	$0.59597	$133,977,540	97.34%	99.16%
1994	1995	24,309,875,164	0.58797	142,934,773	97.70%	99.25%
1995	1996	26,793,724,971	0.57979	155,347,338	97.96%	99.64%
1996	1997	28,320,799,143	0.57979	164,201,161	98.24%	99.23%
1997	1998	29,422,284,674	0.57979	170,587,464	98.42%	99.75%
1998	1999	31,253,551,025	0.57979	181,204,963	98.35%	99.86%
1999	2000	33,315,478,862	0.57979	193,159,815	98.14%	99.80%
2000	2001	36,033,321,329	0.57979	208,917,594	97.89%	99.30%
2001	2002	39,587,584,280[(2)]	0.57854	229,030,010	97.78%	99.25%
2002	2003	41,684,443,121[(3)]	0.57854	241,161,177	In Process of Collection	

(1) Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
(2) Based on Tax Year 2001 Net Taxable Assessed Valuation Bexar Appraisal District certification on September 6, 2002.
(3) Based on Tax Year 2002 Net Taxable Assessed Valuation certified by Bexar Appraisal District as of January 17, 2003.

DEBT AND TAX RATE LIMITATIONS

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (i) any indebtedness secured in whole or in part by special assessments; (ii) the bonded debt of any improvement district; and (iii) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this Constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collection. The issuance of the Bonds will not exceed the above described limits or violate the Texas Attorney General's administrative policy. The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligations, tax anticipation notes, and public property finance contractual obligations.

- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.

- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.

- Revenue bonds may be issued for certain purposes, which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports, and parking systems. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

Tax Rate Distribution **Table 8**

Tax Rate	Fiscal Year Ended September 30 2003	2002	2001	2000	1999	1998
General Fund	$0.36204	$0.35454	$0.35079	$0.34579	$0.34579	$0.34669
Interest and Sinking Fund	0.21650	0.22400	0.22900	0.23400	0.23400	0.23310
Total Tax Rate	$0.57854	$0.57854	$0.57979	$0.57979	$0.57979	$0.57979

Principal Taxpayers **Table 9**

Name	Type of Property	FY 2003 Taxable Assessed Valuation	Percent of FY 2003 Taxable Assessed Valuation
H.E. Butt Grocery Company	Retail/Grocery	$ 482,870,840	1.158%
SBC Communications, Inc.	Telecommunications	458,316,240	1.099%
United States Automobile Association	Insurance/Banking	274,896,010	0.659%
Wal-Mart Stores, Inc.	Retail/Grocery	201,417,100	0.483%
Marriott Corporation	Hotel Chain	170,201,350	0.408%
Humana/Methodist Healthcare System	Hospital/Healthcare	139,162,090	0.334%
Time Warner	Cable Vision	116,651,520	0.280%
Hyatt Regency Hotels	Hotel Chain	111,908,350	0.268%
North Star Mall	Shopping Center	108,781,510	0.261%
Simon Property Trust (Texas)	Shopping Centers	96,584,550	0.232%
Total		$2,160,789,560	5.182%

Net Taxable Assessed Valuation for Tax Year 1993-2002 **Table 10**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation (1)	Change From Preceding Year Amount	Percent
1993	1994	$22,480,584,590	$ 529,749,768	2.41%
1994	1995	24,309,875,164	1,829,290,574	8.14%
1995	1996	26,793,724,971	2,483,849,807	10.22%
1996	1997	28,320,799,143	1,527,074,172	5.70%
1997	1998	29,422,284,674	1,101,485,531	3.89%
1998	1999	31,253,551,025	1,831,266,351	6.22%
1999	2000	33,315,478,862	2,061,927,837	6.60%
2000	2001	36,033,321,329	2,717,842,467	8.16%
2001	2002	39,587,584,280 (2)	3,554,262,951	9.86%
2002	2003	41,684,443,121 (3)	2,096,858,841	5.30%

(1) Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
(2) Based on Tax Year 2001 Net Taxable Assessed Valuation Bexar Appraisal District certification on September 6, 2002.
(3) Based on Tax Year 2002 Net Taxable Assessed Valuation certified by Bexar Appraisal District as of January 17, 2003.

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Net Taxable Assessed Valuation and Ad Valorem Tax Debt — Table 11

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation	Ad Valorem Gross Debt	Debt Ratios
1993	1994	$22,480,584,590	$667,328,000	2.97%
1994	1995	24,309,875,164	688,613,108	2.83%
1995	1996	26,793,724,971	739,603,108	2.76%
1996	1997	28,320,799,143	740,393,108	2.61%
1997	1998	29,422,284,674	734,238,108	2.50%
1998	1999	31,253,551,025	754,958,108	2.42%
1999	2000	33,315,478,862	780,378,108	2.34%
2000	2001	36,033,321,329	768,693,108	2.13%
2001	2002	39,587,584,280 [1]	838,428,108	2.12%
2002	2003	41,684,443,121 [2]	882,453,103 [3]	2.12%

[1] Based on Tax Year 2001 Net Taxable Assessed Valuation Bexar Appraisal District certification on September 6, 2002.
[2] Based on Tax Year 2002 Net Taxable Assessed Valuation certified by Bexar Appraisal District as of January 17, 2003.
[3] This total estimated debt service includes the Bonds and excludes the Refunded Obligations.

Authorized But Unissued Ad Valorem Tax Debt — Table 12

The City currently has no authorized but unissued ad valorem tax debt. [1,2,3]

[1] The City has authority pursuant to an election held on January 26, 1980 to issue $16,660,000 in bonds. The City does not currently intend to issue bonds authorized in 1980 and may not be legally able to do so.
[2] The City does not have any other authorized but unissued ad valorem tax-supported bonds. The City, however, may issue other obligations payable from its collection of ad valorem taxes, including certificates of obligation, public property finance contractual obligations, and tax notes of maturity within seven years. In addition, the City can enter into leases for various purposes, which also represent financial obligations thereof payable from annual appropriations of tax proceeds.
[3] City is planning to call a bond election, to be held on November 4, 2003, seeking authorization to issue ad valorem tax-supported bonds for the purpose of providing proceeds for law enforcement, drainage, streets, and other infrastructure capital improvements to be identified.

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Classification of Assessed Valuation — Table 13

	Fiscal Year End 9/30/2003 (1)	% of Total	Fiscal Year End 9/30/2002 (2)	% of Total	Fiscal Year End 9/30/2001	% of Total	Fiscal Year End 9/30/2000	% of Total	Fiscal Year End 9/30/1999	% of Total
Real, Residential, Single-Family	$25,038,875,977	53.97%	$23,042,259,879	52.23%	$20,906,400,776	51.77%	$19,078,401,332	51.30%	$17,873,933,813	51.08%
Real, Residential, Multi-Family	2,728,259,864	5.88%	2,709,129,752	6.14%	2,493,260,199	6.17%	2,238,354,581	6.02%	2,178,640,143	6.23%
Real, Vacant Lots/Tracts	1,136,663,725	2.45%	1,128,002,482	2.56%	872,215,729	2.16%	837,869,056	2.25%	777,976,495	2.22%
Real, Acreage (Land Only)	571,231,768	1.23%	593,891,997	1.35%	494,498,219	1.22%	497,788,298	1.34%	487,858,062	1.39%
Real, Farm and Ranch Improvements	10,324,941	0.02%	10,838,121	0.02%	10,644,999	0.03%	9,238,602	0.02%	19,980,416	0.06%
Real, Commercial	9,810,450,355	21.15%	9,648,251,767	21.87%	8,872,239,575	21.97%	8,096,057,328	21.77%	7,497,939,610	21.43%
Real, Industrial	276,432,070	0.60%	280,721,510	0.64%	266,649,434	0.66%	577,976,625	1.55%	253,271,887	0.72%
Real, Minerals, Oil and Gas	25,840	0.00%	41,210	0.00%	25,600	0.00%	16,690	0.00%	65,000	0.00%
Real and Tangible, Personal Utilities	611,209,910	1.32%	887,733,010	2.01%	750,974,070	1.86%	725,527,630	1.95%	731,857,077	2.09%
Tangible Personal, Commercial	4,563,120,250	9.84%	4,536,610,190	10.28%	4,408,249,620	10.92%	3,949,099,890	10.62%	4,026,666,088	11.51%
Tangible Personal, Industrial	1,155,032,769	2.49%	835,935,050	1.89%	817,832,650	2.02%	792,429,070	2.13%	965,393,492	2.76%
Tangible Personal, Mobile Homes	94,881,370	0.20%	83,188,740	0.19%	62,635,280	0.16%	50,148,050	0.13%	38,596,144	0.11%
Real Property, Inventory	154,202,149	0.33%	135,157,724	0.30%	220,758,778	0.55%	152,156,079	0.41%	139,792,924	0.40%
Special Inventory Tax	239,246,360	0.52%	228,768,060	0.52%	210,326,420	0.51%	188,883,870	0.51%	--	0.00%
Exempt Property	--	0.00%	5,600	0.00%	93,000	0.00%	--	0.00%	--	0.00%
Total Assessed Value	$46,389,957,348	100.00%	$44,120,535,092	100.00%	$40,386,804,349	100.00%	$37,193,947,101	100.00%	$34,991,971,151	100.00%
Less:										
Optional 65 Years of Age or Older Homestead Exemptions	$ 3,355,312,775		$ 3,132,670,748		$ 2,986,283,978		$ 2,638,900,445		$ 2,572,113,162	
Optional 65 Years of Age or Older Homestead Exemptions Pro-Rated	28,949,472		81,397,988		75,138,795		158,534,581		149,389,982	
Deceased/Disabled Veterans' Exemptions	113,745,263		105,709,837		91,466,773		83,728,532		80,163,100	
Historical Property Exemptions	26,278,818		25,081,549		23,764,701		19,113,890		25,090,990	
Historical Preservation Area Exemptions (3)	1,047,522		--		--		--		--	
Freeport Goods Exemptions	285,997,620		318,663,870		292,442,670		323,136,930		323,476,280	
Article 8, Section 1-d-1 Special Appraisals	250,415,393		255,213,756		208,454,066		206,218,191		202,501,735	
Tax Phase-In Agreements	381,143,224		368,613,029		430,648,671		407,823,831		360,067,273	
Appraised Value Limitations	236,948,805		204,099,139		207,496,828		24,453,414		15,537,475	
Absolute Pro-Rated Exemptions	25,675,335		41,500,896		37,786,538		16,558,425		10,080,129	
Less: Total Exemptions	$ 4,705,514,227		$ 4,532,950,812		$ 4,353,483,020		$ 3,878,468,239		$ 3,738,420,126	
Net Taxable Assessed Valuation	$41,684,443,121		$ 39,587,584,280		$ 36,033,321,329		$ 33,315,478,862		$ 31,253,551,025	

(1) Based on Tax Year 2002 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of January 17, 2003.
(2) Based on Tax Year 2001 Net Taxable Assessed Valuation Bexar Appraisal District certification on September 6, 2002.
(3) New exemption effective fiscal year 2003, see "AD VALOREM TAXATION – Historical Preservation Area Exemptions," herein.
Sources: City of San Antonio, Department of Finance, and the Bexar Appraisal District.

Assessed Valuation and Tax Rate of Overlapping Issuers[1] **Table 14**

Governmental Subdivision	Fiscal Year End 9/30/2003 Assessed Valuation	Taxable Value	Tax Rate
Alamo Community College District	$54,972,728,364	$53,938,630,728	$0.107100
Alamo Heights Independent School District	3,113,723,672	2,931,370,892	1.630000
Bexar County	54,980,999,274	53,340,217,669	0.317571
Bexar County Flood Control	54,980,999,274	52,349,611,164	0.016100
Bexar County Hospital District d.b.a. University Health System	54,972,728,364	53,332,380,012	0.243869
East Central Independent School District	1,208,763,005	903,697,347	1.680000
Edgewood Independent School District	839,093,071	589,163,432	1.574000
Harlandale Independent School District	1,124,080,168	861,937,138	1.756000
Judson Independent School District	3,608,102,365	3,045,062,546	1.776000
North East Independent School District	16,924,334,756	15,249,899,692	1.764000
Northside Independent School District	16,371,809,694	14,663,670,959	1.762500
San Antonio Independent School District	8,427,599,516	7,275,254,567	1.722000
San Antonio River Authority	54,972,728,364	51,763,964,865	0.016425
South San Antonio Independent School District	858,992,777	700,383,446	1.729690
Southside Independent School District	384,727,674	272,898,764	1.720000
Southwest Independent School District	672,015,599	505,949,809	1.675800

[1] Certified as of October 1, 2002.
Sources: Bexar Appraisal District, Bexar County Tax Assessor/Collector's Office and Judson Independent School District.

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Direct and Overlapping Debt Data and Information — Table 15

The following table indicates, as of September 30, 2002, the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities overlapping the City, and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures without any control of the City. The following statements of direct and estimated overlapping ad valorem tax bonds were developed from information obtained from each taxing entity. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional obligations since the date stated below, and such entities may have programs requiring the authorization and/or issuance of additional obligations, the amount of which cannot be determined.

Taxing Entity [1]	Amount of Gross Debt	Percent Overlapping	Amount Overlapping
Alamo Community College District	$ 102,130,915.00	80.401326%	$ 82,114,609.92
Alamo Heights Independent School District	37,623,319.00	49.282581%	18,541,742.66
Bexar County	156,403,304.00	79.120000%	123,746,294.12
Bexar County Hospital District d.b.a. University Health System	0.00	0.000000%	0.00
Comal Independent School District	296,756,512.00	0.000000%	0.00
East Central Independent School District	58,890,000.00	38.425180%	22,628,588.50
Edgewood Independent School District	71,274,993.00	100.000000%	71,274,993.00
Harlandale Independent School District	165,348,297.00	100.000000%	165,348,297.00
Judson Independent School District	108,570,725.00	37.103815%	40,283,880.95
North East Independent School District	491,621,594.00	87.507733%	430,206,911.85
Northside Independent School District	519,289,838.00	83.868760%	435,521,947.94
San Antonio Independent School District	565,475,400.00	98.960000%	559,594,455.84
San Antonio River Authority	68,105,000.00	73.520000%	50,070,796.00
South San Antonio Independent School District	86,819,416.00	99.734018%	86,588,491.98
Southside Independent School District	40,407,000.00	14.294815%	5,776,105.90
Southwest Independent School District	58,585,000.00	43.730000%	25,619,220.50
Total Gross Overlapping Debt	$ 2,827,301,313.00		$ 2,117,316,336.16
City of San Antonio	838,428,108.00	100.000000%	838,428,108.00
Total Direct and Overlapping Debt	$ 3,665,729,421.00		$ 2,955,744,444.16

Tax Year 2002 Actual Market Value of Taxable Property [2]	$46,389,957,348.00
Tax Year 2002 Net Taxable Assessed Valuation (100% of Actual Market) [2]	$41,684,443,121.00
Ratio of Direct and Overlapping Debt to Actual Market Value	6.37%
Ratio of Direct and Overlapping Debt to Net Taxable Assessed Value	7.09%
Per Capita Direct and Overlapping Debt [3]	$ 2,362.33

Note: The City's total net debt payable from ad valorem taxes is $822,788,108. Calculations on the basis of total net debt payable from ad valorem taxes would change the above figures as follows:

Total Net Direct and Overlapping Debt	$ 2,940,104,444.16
Ratio of Net Direct and Overlapping Debt to Actual Market Value	6.34%
Ratio of Net Direct and Overlapping Debt to Net Taxable Assessed Value	7.05%
Per Capita Net Direct and Overlapping Debt [3]	$ 2,349.83

(1) Certain bonds issued by independent school districts are eligible for payment from the State "Instructional Facilities Allotments" and from "Existing Debt Allotments." These bonds, while obligations of each district, are payable in part from direct allocations of State funds. Such funding varies between districts and from year to year depending upon the State's contribution, which is based on a district's property taxable wealth per average daily attendance.
(2) Based on Tax Year 2002 Assessed Valuation certified by the Bexar Appraisal District on January 17, 2003.
(3) Based on the City of San Antonio Department of Planning estimated population of 1,251,200 for calendar year ending December 31, 2002.

REVENUE SOURCES AND EXPENDITURES

Sources of Revenues

The City's General Fund revenue sources include ad valorem taxes, sales taxes, franchise taxes, contributions from City-owned utilities, fines, penalties, licenses and permits, various service charges, and miscellaneous sources.

General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances — Table 16

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30				
	2002	2001	2000	1999	1998
Fund Balance – Beginning of Year	$ 96,198,138	$ 105,702,670(1)	$ 96,035,183	$100,063,422	$ 79,138,877
Revenues					
Taxes	$310,912,963	$ 291,378,953	$277,833,729	$261,272,870	$246,209,951
Licenses and Permits	13,302,392	12,683,156	12,257,775	12,164,099	11,159,736
Intergovernmental	2,888,626	2,865,885	2,669,780	2,526,778	2,354,189
Revenues from Utilities	171,234,083	187,939,902	172,300,674	149,956,113	150,833,144
Charges for Services	24,631,495	23,211,576	23,010,824	21,726,181	21,676,353
Fines and Forfeits	10,828,974	11,116,047	11,593,504	11,838,121	11,525,034
Miscellaneous	12,054,469	14,249,362	13,017,615	12,705,684	10,862,192
Total Revenues	$545,853,002	$543,444,881	$512,683,901	$472,189,846	$454,620,599
Expenditures (2)					
General Government	$ 57,213,168	$ 69,212,609	$ 56,676,788	$ 50,127,983	$ 45,241,942
Public Safety	351,557,071	327,362,706	308,127,849	291,548,960	270,411,777
Public Works	10,244,816	9,869,123	9,909,813	9,467,167	9,162,860
Health Services	14,076,213	13,423,252	12,472,403	11,394,680	10,874,350
Sanitation	2,663,359	2,754,611	2,601,621	2,400,482	2,780,688
Welfare	17,662,015	17,158,677	13,864,539	12,046,649	10,816,574
Culture and Recreation	59,755,427	58,341,346	53,607,164	48,771,521	43,251,642
Economic Dev. and Opportunity	7,632,008	6,791,425	6,352,358	5,617,688	5,126,211
Total Expenditures	$520,804,077	$504,913,749	$463,612,535	$431,375,130	$397,666,044
Excess of Revenues Over Expenditures	$ 25,048,925	$ 38,531,132	$ 49,071,366	$ 40,814,716	$ 56,954,555
Other Financing Sources (Uses)					
Operating Transfers In	$ 11,198,493	$ 19,042,598	$ 16,324,734	$ 15,207,796	$ 14,377,412
Operating Transfers Out	(76,101,511)	(73,789,801)	(64,535,173)	(66,366,621)	(58,689,236)
Total Other Financing Sources (Uses)	$(64,903,018)	$(54,747,203)	$(48,210,439)	$(51,158,825)	$(44,311,824)
Add Encumbrances (2)	6,108,449	6,711,539	8,806,560	6,315,870	8,281,814
Fund Balance - End of Year	$ 62,452,494	$ 96,198,138	$105,702,670	$ 96,035,183	$100,063,422

(1) For fiscal year 2001, the City implemented GASB Statement No. 33 "Accounting and Financial Reporting for Non Exchange Transactions," as amended by GASB Statement No. 36 "Recipient Reporting for Certain Shared Non Exchange Revenues," which resulted in the restatement of certain prior year balances for the City's General Fund. For comparative purposes, the prior year's tax revenues and fund balance have been restated for the impact of GASB Statement No. 33. These amounts have been excerpted from the City's Comprehensive Annual Financial Report as adjusted for the impact of GASB No. 33 and GASB No. 36.

(2) Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a GAAP fund balance.

Sales Taxation

Authority to Levy Sales Taxes. The City has adopted the provisions of Chapter 321, Texas Tax Code, as amended, which authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%.

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales or taxable items to reduce the property tax levy. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. The City has not authorized this additional one-half cent sales tax.

Park Land. On May 6, 2000, the City held an election to impose a 1/8 cent sales and use tax to provide for the planning, acquisition, establishment, development, construction, or renovation of various venue projects as authorized by Chapter 334, Texas Local Government Code. Proposition No. 3, entitled "Parks Development and Expansion Venue Project" ("Proposition 3"), was approved by the voters. Proposition 3 provides for the collection of 1/8 cent sales tax receipts aggregating up to $65,000,000; $45,000,000 of such sum to be utilized for park land acquisition and improvements over the Edwards Aquifer and the remaining $20,000,000 to be used for the construction of linear parks along Salado and Leon Creeks. Of the $45,000,000 to be used for the Edwards Aquifer, $4,500,000 will be set aside to provide funds for the operation and maintenance of the land area to be acquired. The collection of the 1/8 cent sales tax became effective on October 1, 2000, and will continue to be collected for a period not to exceed ten years or until an aggregate amount of $65,000,000 has been received, whichever occurs first. It is anticipated that the City will collect sales tax receipts aggregating $65,000,000 on or before December 2004.

These funds will be used to support financial costs related to the acquisition of park land, protection of open space areas, provision of flood protection, establishment of greenbelt corridors, and the preservation of natural resources. As the City continues to grow, there is increased demand to protect the City's primary source of water, which is the Edwards Aquifer, provide flood protection, and increase the availability of green areas, open space, and parks. Passage of this proposition has enabled the City to: (i) help protect the Edwards Aquifer water supply from pollution by acquiring land over the Edwards Aquifer Recharge Zone; (ii) add more open space and greenbelt and park area to the City's existing parks and recreation inventory; and (iii) acquire and or improve property within the Leon and Salado Creek beds to provide additional protection against flood damage. As of March 1, 2003, $27,061,324 has been used to acquire 4,935 acres of land. It is anticipated that the remaining funds will be expended during fiscal year 2003 to acquire additional acreage over the Edwards Aquifer.

Collections and Equivalent Rates. Net sales tax collections and the equivalent ad valorem tax rates on fiscal year basis are as follows:

Municipal Sales Taxes **Table 17**

Fiscal Year Ended 9/30	Sales Tax Collected	Ad Valorem Tax Levy (1)	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation	Equivalent Tax Rate
1993	$ 82,328,513	$130,820,390	62.93%	$21,950,834,822	$0.37506
1994	92,669,237	133,977,540	69.17%	22,480,584,590	0.41222
1995	97,667,344	142,934,773	68.33%	24,309,875,164	0.40176
1996	103,032,541	155,347,338	66.32%	26,793,724,971	0.38454
1997	110,034,458	164,201,161	67.01%	28,320,799,143	0.38853
1998	118,991,708	170,587,464	69.75%	29,422,284,674	0.40443
1999	126,472,730	181,204,963	69.80%	31,253,551,025	0.40467
2000	135,130,522	193,159,815	69.96%	33,315,478,862	0.40561
2001	136,810,787	208,917,594	65.49%	36,033,321,329	0.37968
2002	140,084,739	229,030,010	61.16%	39,587,584,280 (2)	0.35386

(1) Total Ad Valorem Tax Levy for debt service and maintenance and operations.
(2) Based on Tax Year 2001 Net Taxable Assessed Valuation Bexar Appraisal District certification on September 6, 2002.

Comparison of Selected Sources of Revenues — Table 18

Fiscal Year Ended 9/30	Taxes	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	City Public Service (CPS) Electric & Gas Systems	San Antonio Water System (SAWS)	Stormwater Drainage Fee[1]	Total
1993	$177,823,573	$13,893,416	$ 7,629,608	$ 6,678,694	$ 6,348,436	$ 1,977,729	$123,129,134	$ 3,980,115	$ 711,730	$342,172,435
1994	191,063,575	17,041,469	7,467,656	6,667,543	7,646,164	2,012,771	124,635,735	3,619,864	2,783,783	362,938,560
1995	202,220,554	16,670,522	9,764,240	8,262,390	8,530,428	2,016,305	119,237,659	4,775,015	3,330,991	374,808,104
1996	214,635,376	18,422,483	8,927,797	9,051,481	9,438,492	2,141,719	133,877,013	4,799,553	6,513,000	407,806,914
1997	228,059,883	18,666,543	9,601,800	8,475,837	9,627,427	2,346,577	136,077,928	4,375,869	13,114,803	430,346,667
1998	246,209,951	21,676,353	10,862,192	11,525,034	11,159,736	2,354,189	146,145,982	4,687,162	13,558,856	468,179,455
1999	261,272,870	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	14,245,127	486,434,973
2000	277,833,729	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	16,382,310	529,066,211
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	16,796,534	560,241,415
2002	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	16,609,215	562,462,217

[1] Beginning in fiscal year 1997, Stormwater Drainage Fee is reported in the Stormwater Operations Special Revenue Fund at Gross Collected Amounts.

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Expenditures for Selected Functions [1] **Table 19**

Fiscal Year Ended 9/30	General Government	Public Safety	Public Works	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1993	$ 33,079,932	$ 196,459,271	$ 8,346,800	$ 8,723,339	$ 2,477,360	$ 6,596,564	$ 31,568,960	$ 3,697,073	$ 290,949,299
1994	36,862,536	206,389,581	8,347,017	9,494,977	2,572,816	7,250,532	33,342,495	3,898,488	308,158,442
1995	40,685,167	222,923,105	8,425,639	10,040,732	2,635,611	9,131,932	37,483,790	4,262,984	335,588,960
1996	42,529,874	237,255,653	8,918,131	10,573,920	2,773,727	9,171,600	41,489,469	4,561,839	357,274,213
1997	45,565,493	251,646,029	8,740,273	10,267,013	2,732,660	8,382,401	41,049,946	4,555,513	372,939,328
1998	44,617,078	267,566,794	9,162,860	10,753,132	2,780,539	10,232,506	42,809,012	4,783,117	392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618

[1] Expenditures for selected functions do not include encumbrances.

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THE CITY

Governmental Structure

The City was incorporated in 1837 and chartered in 1951. It has a Council-Manager form of government with ten Council Members elected from single member districts and a Mayor elected at large (together, the "City Council"), each serving two-year terms (limited to two concurrent terms as required by the City Charter). All members of the City Council stand for election at the same time. The City's geographic area covers approximately 448.9 square miles and is located in South Central Texas, 282 miles south of Dallas, 199 miles west of Houston, and 152 miles north of the U.S./Mexico border. It serves as the county seat for Bexar County ("the County"). According to the 2000 U.S. Census, the population of San Antonio is 1,144,646, ranking San Antonio as the ninth largest city in the United States and the third largest in the State.

Services

The full range of services provided by the City to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers as high priorities the promotion of convention and tourism and participation in economic development programs. The funding sources from which these services are provided include ad valorem, sales and hotel/motel tax receipts, grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, golf courses, parking, and solid waste operations.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system. CPS' operations and debt service requirements for capital improvements are paid for from revenues received from charges to its customers. CPS revenue transfers to the City for its fiscal year ending January 31, 2003 were $172,236,562. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2002 were $165,331,604 (see "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein).

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. SAWS has entered into a contract with the City to provide certain stormwater services for the City and manages and develops water resources in the San Antonio region. SAWS is in its ninth year as a separate, consolidated entity that addresses water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid for from revenues charged to its customers. The City's primary source of water supply is the Edwards Aquifer. SAWS revenue transfers to the City for its fiscal year ending December 31, 2002 were $6,227,401. SAWS revenue transfers to the City for the City's fiscal year ending September 30, 2002 were $6,116,065 (see "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO WATER SYSTEM" in Appendix A attached hereto).

Please refer to Table 18 for historical transfers from CPS and SAWS to the City's General Fund.

Economic Overview

The City's economic strength is enhanced by a favorable business climate, which includes a low cost of living and a friendly and inviting attitude toward commerce and industry. San Antonio is home to a variety of businesses and industries from small companies to large corporations, including public and private sector entities. Among the industries that contribute significantly to San Antonio's economy are domestic and international trade, convention and tourism, medical and health care, government employment, agribusiness, manufacturing, financial, telecommunications, insurance, and mineral production. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations. In addition to the favorable economic climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio's most important industries. Indicative of the City's attractive business climate is Toyota Motor Corporation's recent decision to locate its sixth North American automotive manufacturing plant in San Antonio. This plant is anticipated to begin production in 2006.

The terrorist attacks which occurred on September 11, 2001, and subsequent events thereto, have adversely impacted certain sectors of the United States economy, in particular the airlines industry. Although total domestic and international passengers enplaned at the San Antonio International Airport declined by 2.74% in 2002, the San Antonio International Airport is demonstrating signs of recovery from this event. For example, the number of daily domestic flights has increased from 115 prior to September 11, 2001 to 177 currently. Passenger traffic is expected to resume to normal levels by the end of 2005.

The overall effect of the aforementioned actions may negatively impact statements in this Official Statement regarding receipt of revenues (including ad valorem taxes), employment, insurance coverages on the assets of the City, and other aspects of the City's economy. At this time, the full extent of such disruption and its effect upon the financing described herein cannot be determined.

Employees

The following table shows the City's total full-time and part-time employee positions authorized and number of positions filled. Seasonal and temporary positions are excluded. The number of filled positions shown reflects employees on the payroll for the fiscal years indicated, and the number of employee authorized positions shown reflects positions adopted in the fiscal year budget.

	Fiscal Year Ended September 30,									
	2003		2002		2001		2000		1999	
	Filled*	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Police	1,903	2,025	1,905	2,013	1,940	1,978	1,857	1,963	1,820	1,952
Police Grant Funded	40	41	42	52	33	52	32	42	24	34
Total Police	1,943	2,066	1,947	2,065	1,973	2,030	1,889	2,005	1,844	1,986
Fire	1,391	1,442	1,401	1,448	1,417	1,436	1,349	1,394	1,341	1,359
Fire Grant Funded	-	-	-	-	-	-	-	-	-	-
Total Fire	1,391	1,442	1,401	1,448	1,417	1,436	1,349	1,394	1,341	1,359
Total Police and Fire	3,334	3,508	3,348	3,513	3,390	3,466	3,238	3,399	3,185	3,345
Civilian	6,521	9,680	6,613	9,819	6,323	7,823	6,054	7,537	5,931	7,402
Civilian Grant Funded	730	1,209	868	911	807	787	749	888	753	855
Total Civilian	7,251	10,889	7,481	10,730	7,130	8,610	6,803	8,425	6,684	8,257
Total Employees	10,585	14,397	10,829	14,243	10,520	12,076	10,041	11,824	9,869	11,602

*As of January 31, 2003

Note: The adopted budget for fiscal year 2003 eliminated 344 civilian positions. The eliminated positions included 265 vacant positions and 79 filled position; 78 of the 79 employees whose positions were eliminated were placed in other authorized positions within the City and one employee resigned.

Employee Pension Plan and Benefits

General Plan Information. The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in Appendix B attached hereto. These plans are fully funded in accordance with State law.

Fire and Police Pension Plan. The Fire and Police Retiree Healthcare Fund (the "Retiree Healthcare Fund"), originally established pursuant to the respective fire and police collective bargaining agreements, provides post-employment health benefits for City fire fighters and police officers retiring subsequent to September 30, 1989. The Retiree Healthcare Fund, created as a separate and distinct statutory trust, became effective on October 1, 1997, and is governed by a nine-member Board of Trustees (the "Retiree Healthcare Fund Board") comprised of the Mayor, two City Councilmembers, two active police officers, two active fire fighters, a retiree representative of the City's fire department, and a retiree representative of the City's police department. The Retiree Healthcare Fund Board is responsible for the investment of the Retiree Healthcare Fund assets. Contribution and benefit levels are determined by the respective collective bargaining agreements between the City and its fire and police associations.

Actuarial valuations are performed periodically to determine the Retiree Healthcare Fund's actuarial position and whether its existing financing can be reasonably expected over a long period of time. The Retiree Healthcare Fund Board commissioned an actuarial valuation of the Retiree Healthcare Fund as of July 1, 2000. The results of that study indicated that, based upon the contributions in place at that time, the City's unfunded liability relating to the Retiree Healthcare Fund could be amortized over a 25-year period. The Retiree Healthcare Fund Board commissioned the performance of a second actuarial valuation of the Retiree Healthcare Fund as of October 1, 2001, the results of which indicated that the then-current contributions of 9.4% of covered payroll (base pay plus longevity) by the City, plus monthly employee contributions of $20, were no longer sufficient to amortize the City's unfunded liability relating to the Retiree Healthcare Fund as previously planned. This second study recommended an increase in the rate of the City's contribution to 13.94% of covered payroll, plus continuation of the employee's $20 monthly contribution, to allow for the amortization of this unfunded liability of the City over a 40-year period. Based on this rate increase, the City's required annual contribution to the Retiree Healthcare Fund would increase, beginning October 1, 2002, from approximately $17.2 million to $25.1 million, or $7.9 million annually.

The Retiree Healthcare Fund Board commissioned a third actuarial valuation of the Retiree Healthcare Fund as of October 1, 2002. The results of the third study recommended a City contribution rate of 19.52% of covered payroll, along with employee contributions of $70 monthly. This would result in an increase in the total annual contribution to the Retiree Healthcare Fund, beginning October 1, 2003, of approximately $20 million. The actuary conducting this third study also indicated that a phase-in of increased contributions over a period of time, such as ten years, would be actuarially acceptable. The recommended increase in both the second and third studies is primarily attributable to the actuarial assumptions for current benefit health claims costs, along with anticipated future increases thereto. The actuary conducting the third study indicated that the contribution rate is quite sensitive to small changes in value to these assumptions.

While the second and third studies reflect significant changes in contribution levels by both the City and employees, they also state that the Retiree Healthcare Fund does not face short-term financing problems. As of September 30, 2002, net assets available for post-employment benefits equaled $83.6 million, while benefits payments for fiscal year ended September 30, 2002 equaled $7 million. As noted above, contribution and benefit levels are established pursuant to the respective collective bargaining agreements between the City and its fire and police associations. The current agreement between the City and its fire association expires September 30, 2005, but has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the delivery of the results of the October 1, 2001 actuarial valuation of the Retiree Healthcare Fund; however, said agreement does contain a limited re-opener related to contribution and benefit levels to the Retiree Healthcare Fund. The City's agreement with its police association expired on September 30, 2002, but it is currently in effect pursuant to an evergreen clause running through September 30, 2012. The City and SAPOA (defined herein) are negotiating a new collective bargaining agreement, but as of the date hereof, have been unable to reach a final agreement.

The City anticipates resuming negotiations with SAPOA in June 2003 and will seek to include a comprehensive framework for a long-term solution regarding required contributions to the Retiree Healthcare Fund. In addition, due to the very significant differences in the results of the three actuarial valuations of the Retiree Healthcare Fund conducted from July 2000 through October 2002, the City, in conjunction with both the fire and police associations, anticipate engaging a new actuarial firm to conduct an independent review and valuation of the Retiree Healthcare Fund.

Financial Accounting and Financial Policies

Government-wide Financial Statements. Under the new governmental financial reporting model instituted by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", a new government-wide financial statement is presented, taking the place of the general purpose combining statements presented in previous annual reports. The government-wide financial statements present financial information about the reporting government as a whole using the "economic resource" measurement focus and full accrual basis of accounting.

Fiduciary activities, whose resources are not available to finance the City's governmental programs, are not included in these statements, including component units that are fiduciary in nature. The government-wide statements include a statement of net assets and a statement of activities.

The statement of net assets reflects both short-term and long-term assets and liabilities. Capital assets, infrastructure assets, and debts that are considered long-term will not be reported in the governmental activity column. Net assets, previously known as fund balances in prior annual reports, are now presented in three separate components: invested in capital assets (net of related debt), restricted, and unrestricted. Governmental activities, or those activities normally financed through taxes, intergovernmental revenue, and other non-exchange revenues, are presented in one column. Business-type activities, or those primarily financed by fees charged to outside parties for goods or services, are presented in the next column. Component units are reported in the aggregate, following the primary government's "total" column.

The statement of activities is presented in a net cost format. Expenses are presented in the far left column, followed by program revenues. General revenues are presented at the bottom of the statement. This new presentation allows users to determine which functions are self-supporting, and which ones rely on the tax base in order to complete their mission. The governmental activities are divided by function; the business-type activities are entered as one line (for example, Aviation, Solid Waste, etc. are on separate lines). Component units are presented in the same format as the business-type activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. Some reconciling entries will include those numbers needed to report on the full accrual basis in the government-wide financials from a modified accrual basis, as used in the fund statements. Another reconciling entry will be the elimination of internal service fund activity; the net income (loss) is allocated back to user departments in order to achieve a break-even result in the internal service funds. These allocations will only be reflected in the government-wide statements. Any residual amounts of the internal service funds will be reported in the governmental activity column.

The proprietary funds also have a reconciliation presented on the face of the proprietary fund's Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item will be the internal service fund allocation.

Fund Accounting. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separate columns in the Fund Financial Statements. Nonmajor funds are individually presented in the combining statements.

Government Funds. *General Fund.* The General Fund of the City accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes).

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds. Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds. This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, *i.e.,* for the benefit of the government or its citizenry.

Proprietary Funds. *Enterprise Funds.* The Enterprise Funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises when the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund type.

Fiduciary Funds. Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Pensions Trust, Expendable Trust, and Agency Funds. Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Debt Management

The City issues debt for the purpose of financing long-term infrastructure capital improvements. Some of these projects have multiple sources of funding which include debt financing. Infrastructure, as referred to by the City, means economic externalities essentially required to be provided by government to support a community's basic human needs, economic activity, safety, education, and quality of life. Types of debt issued by the City include ad valorem tax-supported bonds and certificates of obligation. Certificates of obligation are typically secured by a pledge of revenues and ad valorem taxes, do not require voter approval, and are issued for smaller programs that support the City's major infrastructure facilities and certain of its revenue-producing facilities. Revenue bonds are utilized to finance long-term capital improvements for proprietary enterprise and self-supporting operations. Currently, revenue bonds have provided the financing required for the City's International Airport facilities, the City's Parking System, and the Henry B. Gonzalez Convention Center Expansion.

The long-term infrastructure financing process commences with the identification of major projects throughout the City to be financed with ad valorem tax-supported bonds or certificates of obligation. These City-wide projects typically involve public safety, street improvements, drainage, flood control, construction, and improvements to municipal facilities, as well as quality of life enhancements related to municipal parks. Major projects that are financed with ad valorem tax-supported bonds are presented to the electorate for approval. Upon voter approval, the City is authorized to issue ad valorem tax-supported bonds to finance the approved projects. Bond elections are held as needs of the community are ascertained. Revenue bonds do not require an election and are sold as needed for construction, expansion, and/or renovation of facilities in amounts that are in compliance with revenue bond covenants. The process for any debt issuance begins with the budget process and planned improvements to be made during the ensuing fiscal year.

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "AA+", "Aa2", and "AA+" bond rating by Standard & Poor's, A Division of the McGraw Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch"). The positive trend in the City's credit strength is evidenced by S&P's rating upgrade from "AA" to its current "AA+" in 1998 and by Fitch's rating upgrade from "AA" to its current "AA+" in 1999.

Debt Authorization. *Ad Valorem Tax-Supported Bonds.* The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and by ordinance adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has no ad valorem tax-supported debt previously approved by its voters but remaining unissued (although the City does have authority, pursuant to an election held on January 26, 1980, to issue $16,660,000 in ad valorem tax-supported bonds, but it does not intend to issue these bonds and may not be legally able to do so). The City may, however, issue other obligations payable from its collection of ad valorem taxes, including certificates of obligation, public property finance contractual obligations, and tax notes having a maturity within seven years. The City can also enter into leases for various purposes, with said leases representing financial obligations of the City payable from annual appropriations of its ad valorem tax proceeds. In addition, the City is planning to call a bond election, to be held on November 4, 2003, for the purposes described below. As of March 15, 2003, the City had outstanding $711,218,108 in ad valorem tax-supported bonds.

In fiscal year 2002, the City sold $84,945,000 in general improvement and refunding bonds. Use of the proceeds of the sale of such bonds included refunding $15,000,000 in outstanding "City of San Antonio, Texas General Obligation Tax Exempt Commercial Paper Notes", refunding $6,325,000 in outstanding certificates of obligation, and the issuance of $64,975,000 representing the third installment of funds for projects approved by the City's voters at a 1999 bond election. The refunding of the certificates of obligation generated total savings of $1,352,639.

In fiscal year 2002, the City also sold $251,280,000 "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2002" to refund $256,125,000 of certain outstanding obligations. Under the Internal Revenue Code of 1986, as amended, the City could not refund the obligations with refunding bond proceeds prior to 90 days before the first call date, which was August 1, 2002. A forward delivery transaction enabled the City to sell the bonds in November 2001, to lock in the low interest rates, and delay the settlement of the bonds until May 8, 2002. This transaction generated total savings of $24,043,361.

In fiscal year 2003, the City sold $55,850,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2002", $31,220,000 of which represented the fourth and final installment of funds for projects approved in the aforementioned 1999 bond election, with the remaining $24,630,000 used to refund certain of the City's outstanding obligations. The refunding of these obligations generated total savings of $1,462,051. The City is planning to call a bond election, to be held on November 4, 2003, seeking authorization to issue ad valorem tax-supported bonds for the purpose of providing proceeds for law enforcement, drainage, streets, and other infrastructure capital improvement to be identified.

Certificates of Obligation. The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates of obligation are issued for various purposes, to include financing capital improvements and for infrastructure support and development. In fiscal year 2003, the City sold $69,930,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2002", the proceeds of which were used to make permanent public improvements and for other public purposes. On the Closing Date, the City will have $217,180,000 in certificates of obligation outstanding, which comprises 23.39% of its total outstanding ad valorem tax-supported debt.

Revenue Bonds. The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable State laws, and ordinances adopted by the City Council. As of March 1, 2003, the City's outstanding revenue bonds included $192,760,000 in various series of its Airport System Revenue Improvement Bonds, the most recent issue of such debt obligating being the "City of San Antonio, Texas, Airport System Revenue Improvement Bonds, Series 2002" in the aggregate principal amount of $92,470,000 (the "2002 General Airport Revenue Bonds"); "City of San Antonio, Texas, Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002" in the aggregate amount of $37,575,000 (the "2002 Passenger Facility Charge Bonds"); "City of San Antonio, Texas, Parking System Revenue Bonds, Series 2000" in the aggregate principal amount of $24,845,000; and "City of San Antonio, Texas, Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds, Series 1996" in the aggregate principal amount of $179,392,481. The airport, parking, and convention center revenue bonds are not secured by ad valorem taxes and are limited obligations of the City, payable solely from the gross revenues of the airport system, parking system, and hotel occupancy tax collections, respectively. The passenger facility charge and subordinate lien airport system improvement revenue bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the collection of a passenger facility charge, which was approved by the Federal Aviation Administration and the City Council, with collection beginning on November 21, 2001.

Revenue Refunding Bonds. The City routinely reviews the possibility of refunding certain of its outstanding revenue bonds to effectuate interest cost savings.

On May 17, 2001, the City sold $50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to $4,205,029. Such bonds will be delivered on or about April 8, 2003.

On May 1, 2003, the City anticipates issuing and delivering the following two separate series of revenue bonds payable from its collection of gross revenues of the airport system: $8,175,000 "City of San Antonio, Texas Airport System Revenue Bonds, Series 2003-A" and $3,255,000 City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B". The proceeds from the respective issuances of such bonds will be used to refund certain of the City's outstanding debt obligations payable from its collection of gross revenues of its airport system.

1/8 Cent Sales Tax Tax-Exempt Commercial Paper Program. On May 6, 2000, the City held an election to impose a 1/8 cent sales and use tax to provide for the planning, acquisition, establishment, development, construction, or renovation of various venue projects as authorized by Chapter 334, Texas Local Government Code, as amended. Proposition No. 3, entitled "Parks Development and Expansion Venue Project" was approved by the voters. Proposition No. 3 provides for the collection of 1/8 cent sales tax receipts aggregating up to $65,000,000, $45,000,000 of such sum to be utilized for park land acquisition and improvements over the Edwards Aquifer and the remaining $20,000,000 to be used for the construction of linear parks along the Salado and Leon Creeks. Of the $45,000,000 to be used for the Edwards Aquifer, $4,500,000 is set aside to provide funds for the operation and maintenance of the land area to be acquired. An accelerated land acquisition program was financed through the implementation and issuance of Sales Tax Revenue Commercial Paper Notes. The commercial paper program was authorized by the City Council on November 9, 2000, and on December 6, 2000, $32,700,000 in Sales Tax Revenue Commercial Paper Notes were sold. At March 1, 2003, the City had $16,800,000 Commercial Paper Notes outstanding.

Long-Term Debt Planning. The City employs a comprehensive multi-year, long-term capital improvement planning program that is updated annually (the "Debt Plan"). Debt management is a major component of the financial planning model which incorporates projected financing needs for infrastructure development that is consistent with the City's growth while at the same time measuring and assessing the cost and timing of each debt issuance. Assumptions utilized in the Debt Plan include: (i) assessed valuation growth at 0.5% per year for existing base values and 1.00% per year for new improvements; (ii) projected annexations are added to the assessed valuations in the year they are scheduled to be on the tax rolls; (iii) tax collections are at 97.5%; (iv) the adopted debt service tax rate will decrease to 21.65 cents in fiscal year 2003 and increase incrementally between 0.30 cents and 0.65 cents annually through fiscal year 2011 to an estimated maximum debt service tax rate of 25.35 cents in fiscal year 2011 (the current debt service tax rate is 22.40 cents); (v) $140,200,000 ad valorem tax-supported bonds authorized by the voters in the May 1, 1999 election, all of which have now been sold; and (vi) the issuance of approximately $137,610,000 certificates of obligation, which are scheduled to be sold by fiscal year 2008 for fire station improvements, Metropolitan Planning Organization streets and other street projects, drainage projects, municipal facility improvements, San Antonio River Improvements, and the Enterprise Resource Management System.

New Money Issues. On-going capital improvement needs have required the City to sell certificates of obligation and ad valorem tax bonds to fund capital improvements for various streets, drainage, and flood control projects; acquisition, construction, and improvements related to park facilities; public safety, municipal facilities, and parking structures; and environmental clean-up and land acquisition.

The Airport Master Plan Study, completed in January 1998, determined that certain capital improvements were needed to the San Antonio International Airport's airfield facilities in order to avoid congestion and reduce aircraft delays in the future. The study also found that the Airport's terminal gate capacity is insufficient to meet future demand. The Airport Capital Improvement Plan ("CIP") includes a comprehensive upgrade and expansion of airport facilities to include several runway and taxiway projects and the construction of two new terminal concourses that will replace Terminal 2. The CIP incorporates an approximately $425,592,600 construction program to be completed over a ten year period (which began in 2002 and is scheduled for completion in 2011). The anticipated sources of funding for the capital improvement plan include a combination of general airport revenue bonds, bonds to be paid from the revenues generated by the collection of the passenger facility charge, passenger facility charge revenues used on a current basis, grants, and funds produced from operations. On March 21, 2002, the City issued the 2002 General Airport Revenue Bonds and the 2002 Passenger Facility Charge Bonds. The City anticipates future sales of additional series of new money bonds payable from the various revenues of the airport system as part of the CIP.

Debt Service Tax Rate. The combination of successful refundings, favorable economic activity, and low interest rates for bond and certificate of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of $0.3049 per $100 valuation prior to the 1992, 1993, 1996, 1998, 2001, and 2002 refundings to a projected maximum debt service tax rate of $0.2535 per $100 in fiscal year 2011.

Legislation Affecting Future Issuance of Debt. The State Legislature is currently in session, and under consideration is legislation that, if adopted, will result in the amendment of statutes affecting the City's ability to incur certain types of debt (including certificates of obligation), administering the ad valorem tax system, providing for annexation, and other matters that the City cannot predict. The effect of this legislation, if passed, cannot be ascertained at this time. The State's current legislative session concludes on June 2, 2003.

The Budget Process

The process for developing the fiscal year 2003 proposed budget involved the following steps:

Public Input on Budget Priorities. The first step involved the receipt of public input on budget priorities through a "Budget Open House" that was conducted by the City Council on May 13, 2002. The Budget Open House resulted in the preparation of a list of issues important to citizens and community groups serving as input to the City Council's final setting of fiscal year 2003 budget priorities. The community input from the Budget Open House, along with a list of proposed strategic issues, was reviewed by the City Council at a separate meeting for subsequent use at the "City Council Goals and Objectives Work Session", described below.

Five-Year Financial Forecast. The next step consisted of a presentation by staff of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool identifying emerging issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. In addition, the Forecast serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast allows the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues. The Forecast, which was presented to the City Council on June 6, 2002, reflects the effects of the abrupt downturn in the economy that has occurred since the terrorist attacks of September 11, 2001. With respect to the general fund, a shortfall of $42.4 million was projected for fiscal year 2003. Lower-than-expected revenues as a result of the slowing economy was the major contributing factor to the extent of the projected shortfall. With respect to expenditures, the fiscal year 2003 projections were based upon the continuation of existing services at the fiscal year 2002 level, with adjustments for inflation, rising employee health insurance costs, adjustments to maintain the living wage standard, and added expenditures for mandates. The Forecast also assumed added wage increase-related costs from the recently approved firefighter collective bargaining agreement and the impact of setting aside funds to adjust wages for police officers in anticipation of a new collective bargaining agreement in fiscal year 2003. The five-year general fund projection also projected shortfalls for fiscal year 2004 ($23.6 million), fiscal year 2005 ($14.4 million), fiscal year 2006 ($8 million) and fiscal year 2007 ($3.3 million).

City Council Goals and Objectives Work Session. Following the presentation of the Forecast, the City Council held the Goals and Objectives Work Session on June 7, 2002, representing the thirteenth consecutive year in which the

City Council met to determine its priorities for the coming budget deliberations. The focus of the work session was to direct discussion among the members of the City Council on budget priority issues. Department heads and community stakeholders were available as resources to the City Council to help answer questions. The work session participants focused on establishing fiscal year 2003 budget priorities through a process using as the basis the strategic issues identified in the Forecast. A survey was employed as part of the work session to allow the City Council to rank specifically 84 strategic issues by priority. A follow-up meeting to finalize the budget priorities with the City Council was held on June 13, 2002. The City staff has used the City Council's guidance from the June 7 and June 13, 2002 meetings as the basis for recommending reductions in the fiscal year 2003 proposed budget having the least adverse service delivery impact in the upcoming fiscal year and for proposing targeted added investments in key City Council priority areas.

Proposed Budget Preparation. The proposed budget document also reflects updated program information, goals and objectives, and performance measures for each department. Department directors met with the Management Team in April 2002 and May 2002 to review the departments' goals and objectives for the upcoming fiscal year. During these meetings, staff presented existing and proposed performance indicators which would help them track the City's progress in the efficient and effective delivery of services to citizens and achieve their stated goals and objectives. The performance indicators for each department are arranged in the balanced scorecard format. The performance measures are balanced in that they are grouped to reflect precisely each of the four key organizational aspects of each department: Customer Service, Financial Performance, Internal Processes Efficiency, and Employee Learning & Growth. The measures also are designed to demonstrate and validate the impact of proposed improvements to service delivery.

Departments were also given target budgets based on current service requirements and allowed to submit expenditure proposals within the target amount. The target budgets submitted represent the respective departments' best judgment on how resources should be allocated based on their experience on the most effective method for delivering services. In view of the $42.4 million shortfall projected by the Forecast for fiscal year 2003, each department was specifically asked to prepare proposals for the redirection of resources and/or suggested program reductions equivalent to five percent of each department's fiscal year 2002 adopted budget. Since late June 2002, the City Manager and the City's Management Team have met with each department director to review the department's estimated commitments for fiscal year 2002, fiscal year 2003 base budgets, proposed revenue enhancements, resource redirections, and program reductions based on the City Council's fiscal year 2003 budget priorities.

The City Manager's proposed budget for fiscal year 2003 represents City staff's professional recommendation on a program of revenues and expenditures that provides the highest level of service possible given available resources. Overall, proposed expenditures have been closely examined to ensure the most efficient use of resources and to identify opportunities for improving the effectiveness of service delivery. The proposed budget puts forward a balanced budget that eliminates the projected shortfall through reductions designed to provide continued City services with the least adverse impact on the City Council priorities and recommends targeted added investments in priority areas such as Brooks City-Base, KellyUSA, human development, annexation, neighborhood infrastructure, and maintenance and environmental protection.

Budget Adoption. After receipt of the proposed budget, the City Council held a series of work sessions to review the proposed service program details. The budget work sessions included a review by departments of revenues and presentations that included a description of the significant policy issues. After considering all the recommendations and receiving input from citizens at three public hearings, the City Council amended the budget by balancing program revenues and expenditures to make the proposed service plan more closely track the City Council's priority objectives. The City Council amendments to the proposed budget were less than 1% of the proposed operating budget.

Annexation Plan

General. Through annexation, the City has grown from its original size of 36 square miles to its current area, estimated to encompass 448.9 square miles and having a fiscal year 2003 total market valuation of $46.390 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 21, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.7031 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003, six areas for inclusion within the City for limited purposes. These areas annexed for limited purposes will, upon full purpose annexation, add a total of 56.9656 square miles of land to the City's total area; however, they are not currently included within the calculation of the City's total area given the possibility of de-annexation three years from the date of initial annexation (see "Limited Purpose Annexation" below).

Limited Purpose Annexation. The City annexed for limited purpose, effective January 5, 2003, six areas south of San Antonio. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City is publishing a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study contains projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of) annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the date of future, full purpose annexation.

Annexation Legislation. In 1999, the Texas Legislature passed Senate Bill 89, published at Acts 1999, 76th Leg. ch. 1167, § 4 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act, municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City identifying 13 areas for either limited or full purpose annexation, as required by the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), of which 11 areas were annexed in the manner described in "Annexation Plan" above. The City Council amended this plan at its December 12, 2002 meeting and added 13 areas to be annexed by December 31, 2005.

Public Improvement District

Pursuant to The Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District ("PID") in the City's central business district. The purpose of the PID is to provide public improvement services to properties within the PID's boundaries, to include: (i) sidewalk sweeping and washing; (ii) graffiti abatement; (iii) landscaping/streetscaping services; (iv) a marketing and promotional program; and (v) a public service representative program. On July 1, 1999, the City Council authorized a contract with Centro San Antonio Management Corporation, a Texas non-profit corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The fiscal year 2003 plan reflects a total budget of $1,534,000, based on an assessment rate of $0.12 per $100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately $1,081,000 in fiscal year 2003, estimated additional funds are to be received from annual contributions from the City of $75,500, from City Public Service of $16,032, from VIA Metropolitan Transit of $30,000, and $5,000 from the federal General Services Administration. The PID will operate on these collected revenues and will not issue bonds. The PID has been authorized through the end of fiscal year 2004.

Investments

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Act"), and in accordance with an Investment Policy approved by the City Council. The Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City has established a written investment policy adopted September 12, 2002. The City's investments are managed by its Director of Finance, who, in accordance with the Investment Policy, reports investment activity to the City Council.

Legal Investments. Under Texas law, the City is authorized to invest in (i) obligations of the United States or its agencies and instrumentalities; (ii) direct obligations of the State or its agencies and instrumentalities; (iii) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (iv) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (v) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (vi) certificates of deposit issued by a state or national bank, savings bank, or a state or federal credit union, which is domiciled in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation, guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (i) through (v) above or in any other manner and amount provided by law for City deposits; (vii) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (i), requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (viii) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short term obligations of the accepting bank or its parent are rated at least "A 1" or "P 1" or the equivalent by at least one nationally recognized credit rating agency; (ix) commercial paper with a stated maturity of 270 days or less and is rated at least "A 1" or "P 1" or the equivalent by either (A) two nationally recognized credit rating agencies or (B) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (x) no load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (xi) no load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (xii) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (xiii) bonds issued, assumed, or guaranteed by the State of Israel; and (xiv) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations, provided that the pools are rated no lower than "AAA" or "AAA m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in (i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pays no principal; (ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage backed security and bears no interest; (iii) collateralized mortgage obligations that have a stated final maturity of greater than ten years; and (iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies. Under Texas law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (i) suitability of investment type; (ii) preservation and safety of principal; (iii) liquidity; (iv) marketability of each investment; (v) diversification of the portfolio; and (vi) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City must submit to the City Council an investment report detailing (i) the investment position of the City; (ii) that all investment officers jointly prepared and signed the report; (iii) the beginning market value, any additions and changes to market value, the fully accrued interest, and the ending value of each pooled fund group; (iv) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (v) the maturity date of each separately invested asset; (vi) the account or fund or pooled fund group for which each individual investment was acquired; and (vii) the compliance of the investment portfolio as it relates to both adopted investment strategy statements and State law. No person may invest City funds without express written authority from the City Council.

Additional Provisions. Under Texas law the City is additionally required to: (i) annually review its adopted policies and strategies, (ii) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (iii) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (iv) require the qualified representative of firms offering to engage in an investment transaction with the City to: (A) receive and review the City's investment policy, (B) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organizations that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (C) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (v) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (vi) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (vii) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (viii) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (ix) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (x) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments. At December 31, 2002, investable City funds, in the approximate amount of $886,567,792, were 85.23% invested in obligations of the United States, or its agencies and instrumentalities, and 12.85% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.92% of the City's portfolio includes the convention center debt service reserve fund of $16,999,830, which is invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.03% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

Certain Significant Issues Affecting the City

Water Supply. As previously mentioned, the primary source of water for the City is the Edwards Aquifer. Usage of water from the Edwards Aquifer, including usage by the City, has steadily increased over time. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for the Comal Springs and the San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economy. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the U.S. Fish & Wildlife Service under the federal Endangered Species Act. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage regionwide, and discharge from the aforementioned springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability and the historical balance between recharge and discharge in the form of well withdrawals and spring discharges.

Ever increasing demand on the Edwards Aquifer threatened to exceed average historical recharge, generating concerns by the areas dependent upon springflow for water and the local economy. Also, the fluctuations in Edwards Aquifer levels threatened to jeopardize flow from Comal and San Marcos Springs. Since groundwater, including the Edwards Aquifer, is subject to the rule of capture in Texas, meaningful management could not be accomplished in the absence of new State legislation.

Regional planning efforts to address these issues were undertaken in the mid-1980's, resulting in recommendations for new State legislation for management of the Edwards Aquifer. Failure to adopt this legislation in the 1989 Texas Legislative Session resulted in the initiation of various lawsuits and regulatory efforts by regional interests dependent upon springflow to force limitations on overall usage from the Edwards Aquifer. In addition to the litigation discussed below, litigation was initiated in State District Court to have the Edwards Aquifer declared an underground river under State law and therefore owned by the State. This litigation was unsuccessful. In addition, efforts were undertaken to have the Texas Water Commission (now the Texas Commission on Environmental Quality) to regulate the Edwards Aquifer. In April 1992, the Texas Water Commission adopted emergency rules declaring the Edwards Aquifer to be an underground stream and therefore State water subject to its regulation. After final adoption of permanent rules, litigation was initiated in State court challenging the Texas Water Commission's determination. The Texas Water Commission's permanent rules and the Commission's determination that the Edwards Aquifer was an underground stream and, therefore, subject to regulation by the State, were declared invalid by the State courts.

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993, along with its amendment in 1995 to allow its implementation. As more fully discussed under "LITIGATION AND REGULATION" herein, litigation initiated by the Sierra Club against the City was filed prior to a Texas Supreme Court decision reversing a State District Court judgment that the Edwards Aquifer Authority legislation was unconstitutional. The Edwards Aquifer Authority began operation on July 1, 1996, and implementation of the State legislation will ultimately result in elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Aquifer users.

The board of the Edwards Aquifer Authority has adopted and implemented rules concerning (i) critical period management measures and (ii) requirements for permit applications and the process for permit issuance. Critical period management rules call for staged reduction in water usage by limiting discretionary use with successive measures based upon Aquifer levels. The City currently has a similar critical period management ordinance, limiting discretionary water usage primarily through restricting outdoor water use and lawn watering. The Edwards

Aquifer Authority critical period rules are less restrictive and are triggered by lower Aquifer levels than this City ordinance regarding critical period management, and SAWS does not expect these rules to materially adversely affect revenues or operation or SAWS' ability to supply water to its customers for primary needs.

The Edwards Aquifer Authority reviewed over 1,000 applications for permits based on historical pumping (1973-1993) of Edwards Aquifer water. SAWS, as a historic user, was eligible to apply for a permit authorizing its maximum annual historic usage without waste, with a minimum permit allowing for average use during the historical period. The Edwards Aquifer Authority staff proposed either permit amounts or denials on all applications in November 2000. At its meeting of January 14, 2001, the Edwards Aquifer Authority's board issued or denied over half of the proposed permits. The Edwards Aquifer Authority staff proposed a permit for 149,815.9 acre-feet of water (an acre-foot equaling 325,851 gallons) based upon the application submitted by SAWS. SAWS, along with several other permit applicants, contested its proposed permit amount initially delivered by the board of the Edwards Aquifer Authority. SAWS' claim for a higher amount and the other contests will be referred to a contested care administrative proceeding before final action by the Edwards Aquifer Authority Board. SAWS pumped 178,380 acre-feet during 2001 and currently has interim authorization to pump 193,944 acre-feet. SAWS anticipates that the earliest effective date for a final permit would be January 2004. SAWS has acquired 21,603.48 acre-feet of Edwards Aquifer pumping rights to help cover the shortage between the proposed permit and its current pumping. Additionally, SAWS has been active in participating in the lease market for Edwards Aquifer pumping rights and, to date, has leased another 29,258.95 acre-feet. The bulk of the lease terms are three to five years.

Implementation of the legislation and the management of the Edwards Aquifer has benefited the City. The previously-described legislation provides a basis for resolving disputes concerning the application of the Endangered Species Act to the Edwards Aquifer and will prevent further diminution of usage by existing users, such as the City, caused by new users and additional demand. The legislation creates permitted rights and hence, a market in the limited resource and an incentive to implement conservation measures region-wide. The City believes that implementation of the legislation will also ultimately result in the elimination of litigation threats to existing water usage from the Edwards Aquifer.

Water Reuse Program. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and sell this non-potable water inside and outside its water and wastewater service area. Using this authority, SAWS is developing a water reuse program, which is in its fourth year of active construction and is 99% complete, capable of producing approximately 35,000 acre-feet of recycled water annually (or 20% of its annual use of water from the Edwards Aquifer). SAWS anticipates delivery of reuse water at or near capacity within two years. SAWS' water reuse program will allow conversion of certain users, such as golf courses and industries, from consumption of potable, Edwards Aquifer water to use of non-potable, recycled water. Upon completion of the recycled water infrastructure program, including transmission lines and storage and treatment components, SAWS will annually deliver 35,000 acre-feet of recycled water for use in irrigation, industrial processes, and cooling towers.

SAWS has agreed with CPS for the provision of reuse water through 2030. The revenues derived from such agreement have been restricted in use to only reuse activities, are excluded from its calculation of gross revenues, and are not included in any transfers to the City's General Fund.

Electric and Gas Supply. The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas ("PUCT"). Effective January 1, 1997, the transmission grid in Texas was opened to wholesale competition by virtue of PUCT regulations implementing 1995 Texas legislation. Wholesale customers include cities and towns buying power for resale, and as a result of the new regulations, the transmission grid is available on an open access basis to any power provider to supply these loads. CPS has historically supplied power to three city-owned utilities: the Floresville Electric Light & Power System, the City of Hondo Utilities, and the Castroville Utility System. In August 2000, the City of Brady awarded CPS a three-year contract to become its wholesale electric provider effective December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing, and any new, wholesale agreements would be met from the CPS generating capacity available after satisfying the requirements of its retail energy customers and maintaining necessary reserves.

The City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments require the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - State Regulatory Changes and Service Area and Rates" in Appendix A attached hereto.)

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may "opt-in" to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that it is not the City's intent to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. Nothing that has occurred since the market opening has suggested a need by CPS to hasten any consideration of opening up the CPS service area to retail competition in the near-term. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7" in Appendix A.)

Congress may also continue to consider legislation that would affect retail competition in the furnishing of electric energy. The ultimate effects of these and other developments in the restructuring of the electric industry, including possible state or national legislation, cannot be predicted. CPS, however, will continue to implement organizational and systems changes to prepare for the possibility of participating in retail electric competition in Texas and will periodically advise the City regarding developments in the competitive market and the advisability of CPS participation.

LITIGATION AND REGULATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act; therefore, the potential liability is approximated at $10.5 million which is included in the reserve recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the City.

Information regarding various lawsuits against the City is included at Footnote 11, entitled "Commitments and Contingencies: in Appendix B attached hereto, entitled "EXCERPTS FROM THE CITY'S AUDITED FINANCIAL STATEMENT" for the year ended September 30, 2002. In addition, the City provides the following information regarding cases not contained in said Appendix B:

Edwards Aquifer Sierra Club v. City of San Antonio, et al. In June 1996, Sierra Club filed a lawsuit against thirteen large users of water from the Edwards Aquifer, which included the City. Sierra Club sought temporary and permanent injunctive relief to limit the amounts of water withdrawn from the Edwards Aquifer in order to protect endangered species. In addition, Sierra Club sought injunctive relief against federal agencies to require the agencies to consult with the Fish & Wildlife Service before conducting any further activities in the Edwards Aquifer region.

In August 1996, the District Court granted Sierra Club's request for temporary injunction. The City appealed the District Court' decision arguing that the District Court should abstain from acting and allow the legislatively created Edwards Aquifer Authority ("EAA") to manage groundwater usage. The Fifth Circuit reversed the District Court's decision and remanded the case for further proceedings. Sierra Club filed a Writ of Certiorari to the United States Supreme Court, which was denied in January 1998.

In late March 2002, a number of Defendants filed Motions to Dismiss or Motions for Summary Judgment. The City's Motion urges dismissal on several grounds including Lack of Prosecution and the Burfurd Abstention Doctrine. The Sierra Club has filed a motion for non-suit.

Kapche v. City of San Antonio. This case has twice been reversed by the Fifth Circuit Court of Appeals. It concerns the question of whether an insulin dependent diabetic can be refused as a policeman solely on the basis of the insulin dependence or whether an individualized assessment is required. The law, until Kapche, was that the per se rule applied. Plaintiffs and Amicus claim that because of advances in treating diabetes that an individualized assessment is required. If the City loses, the City will be required to pay plaintiff's attorney fees, now estimated to be about $250,000.

Rogers, et al. v. City of San Antonio. This case was filed on behalf of the City of San Antonio firefighters who are or were members of the military. Plaintiffs allege they were denied various types of employment rights, benefits, and pay because of their military status, in violation of the Uniformed Services Employment Rights Act. If lost, the case could expose the City to liability in the amount of approximately $600,000.

University of Kansas v. City of San Antonio. On September 30, 1999, the City's Community Initiatives Department received a grant from the Department of Labor for the purpose of administering a new "Welfare-to-Work" project. On October 14, 1999, Plaintiff entered into a contract whereby Plaintiff would provide expertise with development of the "Advocates Striving to Create Edgewood Neighborhood Development" Cooperative Program. The City agreed to make payments for an amount not to exceed $715,000. By letter dated July 30, 2001, the City notified the Plaintiff of its election to terminate the contract. Plaintiff sued for the amount of $387,325.50 allegedly due, plus any additional attorney's fees.

Matthew Jackson et al. v. City of San Antonio. This is a Fair Labors Standards Act ("FLSA") lawsuit, with 67 named plaintiffs claiming they were required to report for duty 15 minutes prior to their shift and that they were not compensated for the time, in violation of the FLSA. There are several other allegations based on the FLSA, as well. The lawsuit has been filed on behalf of all of the police officers similarly situated to the 67 plaintiffs. Thus, the potential exists for more officers to join the lawsuit. The City expects to win the lawsuit, but the potential liability, if the case were lost, could be an amount over $1,000,000. This is not an exact figure, however, nor should it be construed as such. In defending this cause of action, the city has not had sufficient time to calculate the City's exposure to liability with any degree of certainty.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contraction of acute lymphoblastic leukemia. Although the trial court has entered against the City a judgment of $20 million, the City believes that $19.98 million of such sum ($10 million in exemplary damages and $9.98 million in personal injury damages) is not recoverable by the Plaintiff under a nuisance theory. Even if recoverable, the City believes that damages are capped at $250,000 under the Texas Tort Claims Act. The City is appealing the judgment.

Collective Bargaining Negotiations

The City is required to collectively bargain the compensation and other conditions of employment with its fire fighters and police officers. The City engages in such negotiations with the association selected by the majority of the fire fighters and police officers, respectively, as their exclusive bargaining agent. The International Association of Fire Fighters, Local 624 was the recognized bargaining agent for the fire fighters during the 2001-2003 negotiations. The San Antonio Police Officers Association ("SAPOA") is the recognized bargaining agent for the police officers during the current negotiations. Following is a status of the collective bargaining negotiations with each association.

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624. The City Council approved a collective bargaining agreement with the International Association of Fire Fighters Local 624 on May 23, 2002. The term of the contract is from June 3, 2002 through September 30, 2005, with an evergreen clause through September 30, 2015. It is estimated that the cumulative cost of this contract through September 30, 2005 will be $39,871,000.

Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers' Association. The City Council approved a collective bargaining agreement with SAPOA having a term through September 30, 2002, and an evergreen clause through September 30, 2012. Efforts to negotiate a new contract with SAPOA commenced August 21, 2002. On October 1, 2002, the parties reached an impasse in negotiations but continue to mediate over the terms of the agreement. During the latter part of December 2002, the parties reached a tentative agreement. SAPOA ratified the tentative agreement by a vote of 66% in favor of its terms; however, upon the filing against the City of the lawsuit styled *Matthew Jackson et al. v. City of San Antonio* (described above), the City felt it prudent to address any and all issues necessary to prevent future claims of FLSA violations and, thus, continued negotiations with the SAPOA in pursuit of this goal.

On January 30, 2003, the City Council passed Resolution No. 2003-04-05, which expressed the City Council's intent to adopt the tentative collective bargaining agreement reached with SAPOA so long as such agreement was modified to include certain amendments addressing exposure to future claims of FLSA violations. The parties continued communicating in an attempt to resolve these FLSA issues and to address amendments to the agreement proposed by the City Council. Although the parties agreed to certain revisions, they were unable to resolve all the outstanding issues.

On February 20, 2003, the City Council passed Ordinance No. 97230A rejecting the terms of the tentative collective bargaining agreement with SAPOA. Estimates placed the cumulative cost of this agreement at $55.3 million through September 30, 2006. Although the City believes it is in compliance with the requirements of the FLSA, the financial exposure resulting from the ongoing FLSA-related litigation is unknown. Should the City lose this lawsuit, the cost of the collective bargaining agreement will exceed the $55.3 million estimate. The City and SAPOA will resume negotiations in June 2003.

Criminal Investigations

On October 10, 2002, the U.S. Attorney's Office announced indictments against Councilmen John H. Sanders and Enrique Martin on charges of conspiracy to commit bribery, bribery, and aiding and abetting charges. The indictments allege that the two Councilmen voted to award a contract to a certain San Antonio based law firm in exchange for cash payments. The federal grand jury has also subpoenaed Mayor Garza and seven other Council members in connection with the investigation.

On October 22, 2002, the Bexar County District Attorney's Office announced an indictment against Councilman Enrique Martin on charges of conspiracy to commit the following: organized criminal activity, bribery, bid rigging, tampering with government records, abuse of official capacity, money laundering, felony theft, aggravated perjury, and tampering with witnesses; and the commission of theft, abuse of official capacity, and bribery, in connection with a certain zoning case before the City Council and award of a certain contract considered by the Board of Trustees of the Alamo Community College District.

The City is unable to otherwise comment on these events or any such investigations. The City is also unable to predict, at this time, how these indictments will be resolved or what actions the federal and state prosecutors and, alternately the courts, will take to resolve these matters. The indicted Council members have denied the allegations and have indicated they will defend against these charges.

TAX MATTERS

The delivery of the Bonds is subject to the opinions of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc., Co-Bond Counsel to the City ("Co-Bond Counsel"), to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (i) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended, (the "Code"), to the date of initial delivery of the Bonds of the owners thereof pursuant to section 103 of the Code and (ii) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Co-Bond Counsel's anticipated opinions is included as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code.

In rendering the foregoing opinions, Co-Bond Counsel will rely upon the Report of the Accountants as disclosed herein under "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS" and upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in and a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Co-Bond Counsel's opinions are not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinions of Co-Bond Counsel, and Co-Bond Counsel's opinions are not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced under current procedures, the Service is likely to treat the City as the "taxpayer", and such owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Accounting Treatment of Discount or Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the stated redemption price at maturity (as defined in section 1272 of the Code and Treasury Regulations thereunder) of the Discount Bonds. An amount equal to the difference between the initial public offering price of each Discount Bond (assuming that at least ten percent of the Discount Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semi-annual compounding of accrued interest, at the yield to maturity on such Discount Bond. The allocation of such original issue discount will generally result in an amount being treated as interest that is different than the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

Such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in and a financial asset securitization trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the sale or other taxable disposition of a Discount Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price (as furnished by the Underwriters) of certain Bonds (the "Premium Bonds"), may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that at least ten percent of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(ii); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended,) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, (Chapter 2256, Texas Government Code, as amended,) requires that the Bonds be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency (see “RATINGS” herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under “TAX MATTERS,” the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Co-Bond Counsel has been retained by, and only represents, the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. In their capacity as Co-Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas have reviewed the information appearing in this Official Statement under the captions “THE BONDS” (except for the information under the captions “ - Defaults and Remedies”, “ - Payment Record”, and “ - Book-Entry-Only System”, as to which no opinion is expressed) “TAX MATTERS”, “REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, “LEGAL MATTERS”, and “CONTINUING DISCLOSURE OF INFORMATION” (except under the caption “ - Compliance with Prior Undertakings” as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel’s limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The legal opinion of Co-Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Akin Gump Strauss Hauer & Feld LLP and Loeffler Jonas & Tuggey LLP.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, as amended, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the Acting City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Texas Government Code, Chapter 552, as amended. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas 78205, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1-13 and 16-19, and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any State Information Depository ("SID").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B attached hereto or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the status of the Bonds; (vii) modification to rights of holders of the Bonds; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. (Neither the Bonds nor the Ordinance make any provision for redemption, debt service reserves, credit enhancement, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas 78701, or Post Office Box 2177, Austin, Texas 78768-2177 and its telephone number is (512) 476-6947.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances; and (ii) either (A) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Bonds consent to such amendment or (B) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances, and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS

The issuance of the Bonds will be subject to delivery by Grant Thornton LLP, Minneapolis, Minnesota, certified public accounts (the "Accountants"), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Government Securities and cash deposits listed in the schedules provided by the Co-Financial Advisors (defined herein), to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on both the Government Securities and the Bonds contained in the provided schedules used by Co-Bond Counsel in its determination that the interest on the Bonds is excludable from the gross income of the holders thereof. The Accountants will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the City and Coastal Securities, and such verification, information and assumptions will be relied on by Co-Bond Counsel in rendering its opinion described herein.

RATINGS

Moody's Investors Service ("Moody's), Standard & Poor's, A Division of McGraw-Hill Corporation ("S&P"), and Fitch Ratings ("Fitch") have rated the Bonds "Aa2", "AA+", and "AA+", respectively. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CO-FINANCIAL ADVISORS

Coastal Securities and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors fee for service rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of $43,662,533.92 plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief (i) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (ii) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iii) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (iv) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City appearing in the Official Statement.

AUTHORIZATION OF THE OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the Bonds was authorized, ratified, and approved by the City Council on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

* * * * *

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

/s/ Ed Garza
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Yolanda Ledesma
Acting City Clerk, City of San Antonio, Texas

SCHEDULE I

TABLE OF REFUNDED OBLIGATIONS

CITY OF SAN ANTONIO, TEXAS

Description of Issue	Original Issue Amount	Amount to be Refunded	Maturities to be Refunded	Interest Rate	Redemption Date	Redemption Price
General Improvement and Refunding Bonds, Series 1993	$ 93,680,000	$ 4,400,000	08/01/2004	4.75%	08/01/2003	100
		3,255,000	08/01/2005	4.75	08/01/2003	100
		3,345,000	08/01/2006	4.75	08/01/2003	100
		3,395,000	08/01/2007	4.75	08/01/2003	100
		3,760,000	08/01/2008	4.75	08/01/2003	100
		5,895,000	08/01/2009	4.50	08/01/2003	100
		1,345,000	08/01/2010	4.50	08/01/2003	100
		2,535,000	08/01/2011	4.00	08/01/2003	100
		4,610,000	08/01/2012	4.00	08/01/2003	100
		4,885,000	08/01/2013	4.00	08/01/2003	100
		5,775,000	08/01/2014	4.00	08/01/2003	100

APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the "City" or "San Antonio") and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The 2000 U.S. Census Bureau cites the population of the City to be 1,144,646. The City's Department of Planning estimated the City's population at 1,251,200 for the calendar year ending December 31, 2002. The U.S. Census Bureau ranks the City as the third largest in the State of Texas and the ninth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the 2000 U.S. Census Bureau. The City's Department of Planning estimated Bexar County's population at 1,512,800 for the calendar year ending December 31, 2002 for Bexar County. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the Mexican border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area ("MSA"), which includes Bexar County and portions of, Comal, Wilson, and Guadalupe Counties:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,592,383

Source: U.S. Census Bureau; City of San Antonio, Department of Planning.

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 448.9 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation Plan

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.8961 square miles and having a fiscal year 2003 total market valuation of $46.390 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.7031 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003, six areas for inclusion within the City for limited purposes. These areas annexed for limited purposes will, upon full purpose annexation, add a total of 56.9656 square miles of land to the City's total area; however, they are not currently included within the calculation of the City's total area given the possibility of de-annexation three years from the date of initial annexation. (See "- Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City is publishing a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study contains projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of), annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the date of future, full purpose annexation.

Annexation Legislation

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act, municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City identifying 13 areas for either limited or full purpose annexation, as required by the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), of which 11 areas were annexed in the manner described in "Annexation Plan" above. The City Council added 13 areas identified for annexation by December 31, 2005.

Form of Government and Administration

The City's Home Rule Charter (the "City Charter") with a council-manager form of government (the "City Council"), was adopted in 1951. On five separate occasions since that time, first in November 1974, then again in January 1977, May 1991, May 1997, and November 2001, the City Charter has been amended. Significant amendments to the City Charter include the 1991 passage of provisions limiting service by the Mayor and members of the City Council to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the May 1997 passage of five propositions, each containing numerous amendments to the City Charter. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

The City Council is composed of 11 elected members, with 10 members elected from single-member districts, while the Mayor is elected at large. Because of the aforementioned term-limits, City Council members and the Mayor each serve a maximum of four years. The terms of all elected officials currently sitting in office expire in May 2003. The City Manager, the City's chief administrative officer, is appointed by and serves at the pleasure of the City Council.

Services

The full range of services the City provides to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales, and hotel/motel tax receipts, federal and state grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, storm water, and solid waste operations.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS's operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2002 were $165,118,018.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its ninth year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2002 were $6,116,065.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for December 2002 was 769,520, which is 11,161, or 1.47%, more jobs than the December 2001 total of 758,359. Service, trade, and government represent the largest employment sectors in the San Antonio MSA. Medical and bio-medical, tourism, and the military represent the largest industries in San Antonio. The City serves as a major insurance center in the southwest United States and is the headquarters location for several insurance companies. According to the Greater San Antonio Chamber of Commerce Largest Employers Directory 2002, San Antonio's seven largest private sectors employers are: Valero Energy Corporation, United Services Automobile Association, H.B. Zachry Company, H.E.B. Grocery Company, SBC Communications, Inc., SBC Southwestern Bell, and Baptist Health System. The five largest publicly traded companies in the City, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc., according to the San Antonio Business Journal Book of Lists 2003.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry segment in the San Antonio economy, according to the San Antonio Greater Chamber's Economic Impact Study, 2001. The industry is diversified, with related industries such as research, pharmaceuticals, manufacturing, and insurance contributing approximately the same economic impact as health services. The total economic impact from this industry sector totaled approximately $11.5 billion in 2001. The industry provided nearly 98,000 jobs, or approximately 14% of the City's total workforce. The healthcare and bioscience industry's annual payroll in 2001 approached $3.5 billion, up 16% from 1998. The 2001 average annual wage of City workers was $30,652, compared to $34,352 for healthcare and bioscience employees. These 2001 economic impact figures represent growth of 5% over the previous year, or approximately $570 million. In addition, the industry grew by 17% over the four years preceding the date of the aforementioned economic impact study.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has 10 major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.3 billion as of January 2002. As of January 2002, approximately 24,800 Medical Center employees provided care for over 3.3 million outpatients and approximately 98,000 inpatients. Physical plant values representing the original investments in physical facilities and equipment (less depreciation) held relatively steady at $1.7 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $136 million. Projects planned for the next five years will add an additional estimated $165 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a major trauma center and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall Medical Center ("Wilford Hall") is the largest medical facility of the U.S. Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is a major trauma center that handles emergency medical care for approximately one-fourth of the City's emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda VA Outpatient Clinic (which serves veterans located throughout South Texas).

Bio-Medical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the bio-medical field, with total research economic impact exceeding $681.7 million annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology, the Cancer Therapy and Research Center's Institute for Drug Development, dozens of new biotechnology-related companies, and will soon include the South Texas Centers for Biology and Medicine. The Park has over $100 million invested in its facilities and equipment and generates more than $200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. SBC Communications, Inc. recently donated $1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that will link all facilities at the Park to the UT Health Science Center and the University of Texas San Antonio ("UTSA").

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 65 doctoral degree recipients, a technical staff of 102, and an administrative and supporting staff of 165 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities.

The UT Health Science Center has been a major bio-science research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with $200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the Cancer Therapy and Research Center, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

UTSA houses the Cajal Neuroscience Research Center, which is funded by $11 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also the recipient of more than $35 million for its new School of Bioengineering.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and ILEX Oncology, Inc., operate their own research and development groups and act as guide posts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed 8 of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Tourism

The City's diversified economy includes a significant sector relating to the visitor industry. The City receives approximately 8 million visitors each year, up from approximately 7.6 million in 1997 and 6.9 million in 1995. A recent study sponsored by the San Antonio Area Tourism Council approximated that, on an annual basis, these visitors spend $2 billion in the local economy and generate a total economic impact of more than $4 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, two major theme parks (Seaworld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

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Conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows convention activity at December 31 for the years indicated:

Calendar Year	Conventions	Attendance	Number of Room Nights [1]	Estimated Dollar Value [2]
1993	1,597	576,720	976,732	$ 472,229,870
1994	1,647	488,979	947,753	400,385,785
1995	1,536	512,045	982,045	419,272,687
1996	1,391	575,668	959,543	471,368,472
1997	1,502	571,950	944,807	468,324,099
1998	1,497	607,890	1,038,472	547,642,022
1999	1,511	552,234 [3]	938,992	497,502,088
2000	1,321	515,483 [3]	921,495	464,393,480
2001	1,022	524,743 [3]	903,034	472,735,721
2002	1,218	609,036	987,912	548,674,442

1 Reported by the Convention and Visitors Bureau and the Hotel Community.

2 For the years of 1993 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitors Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP which reflected the average expenditure of $900.89 per convention and trade show delegate.

3 The decline in Convention Center activity occurred due to disruptions during construction at the Convention Center, which is now complete.

Military Installations

The military represents a principal component of the City's economy. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston U.S. Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City on July 22, 2002, as part of the "Brooks City-Base Project." The total military employment associated with the three active military installations and Brooks City-Base, (formerly Brooks AFB), approximates 73,189 military, civilian, and guard reserve part-time personnel, an annual aggregate payroll of $2.9 billion, and a total economic impact of $4.8 billion.

Military Base Redevelopment. On July 13, 2001, Kelly Air Force Base officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the base's redevelopment into a business and industrial park. The new business park, known as KellyUSA, is focused on: (i) establishing an intermodel logistics distribution center promoting Inland Port San Antonio and international trade primarily with Mexico and Central and South America and (ii) becoming both a renowned international aviation overhaul and repair center and a manufacturing center for the City. KellyUSA assets, including roads, buildings, and an 11,400-foot runway for commercial air operations, are valued at $1.8 billion. To further the redevelopment goals, GKDA has completed over $105 million in new construction and facility upgrades over the past two years including a new 123,000 square foot hangar for Boeing and a new office building (which is currently leased at 94% of capacity). In addition, GKDA has planned a $108.6 million capital improvement program for the next five years, including the demolishing of 1.2 million square feet in unusable facilities. As of June 2002, these efforts have resulted in the retention of 7,000 military and the creation of over 5,400 new commercial jobs. GKDA has also executed 60 leases totaling approximately 4.4 million square feet of the space available with tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for its continued use.

The Brooks City-Base Project is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park ("Brooks Technology & Business Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002 with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001. Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS, respectively. The BDA is also contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities and to facilitate the attraction of new tenants and jobs.

Despite the official closure of Kelly Air Force Base in July 2001, the level of military-related employment has remained stable over the past 12 months due to growth and expansion of missions at Lackland AFB and Fort Sam. The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has formed a Military Missions Task Force (the "Task Force") to continue working with local military installations to improve their military value, strengthen partnerships with local institutions, and to help attract new missions and jobs to San Antonio. With another round of base closure and realignment scheduled for 2005, the community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project discussed below. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the military bases.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center ("BAMC") and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. On September 17, 2002, the Army announced that it would be relocating U.S. Army South from Puerto Rico to Fort Sam in 2003, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army has negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army also intends to extend this initiative to include other properties at Fort Sam currently available for redevelopment.

Other Significant Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is $2.5 billion, a figure which represents five percent of the City's economy. This industry provides over 10,000 jobs, with employees earning total annual wages totaling over $370 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, Southwest Airlines, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul ("MRO") and general aviation. San Antonio International Airport has added four new non-stop passenger routes in the past 12 months and currently has flights to 30 non-stop destinations, with new charter service to Mexico available in March 2003. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002 and is pending approval by the Federal Aviation Administration. At

KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed continue to secure long term government contracts. KellyUSA is also working to add air cargo activity following completion of an Air Cargo Study and Strategic Plan in June 2002. This study also provided San Antonio International Airport with an Air Cargo Strategic Plan that includes recommendations on expanding the existing and growing air cargo business created primarily by UPS, FEDEX, and Airborne Express operations. In June 2002, the innovative Alamo Area Aerospace Academy ("AAAA") graduated its first class of high school students, with 15 of the 25 seniors in the class finding employment with local aerospace employers. The Fiscal Year 2003 class of 127 commenced in August 2002. This innovative workforce initiative provides high school juniors and seniors a dual-credit aerospace curriculum taught by the Austin Community College District and offers paid summer internships with local employers.

Aerospace Research and Development. Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts a wide variety of research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the United States, serving industries and governments around the world in the engineering and physical sciences. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Information Technology Industry. The Information Technology ("IT") industry is one of the fastest growing sectors of the local economy. With an overall economic impact of approximately $3.4 billion, the IT industry represents about 7% of the San Antonio economy. This economic impact has tripled since 1990 and doubled since 1995. The IT industry includes two major types of activity: (i) the production and sale of various types of computer products and (ii) computer/data processing services. The annual payroll among IT industry employees is about $500 million, with employment of approximately 11,500 individuals. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency, which is the premier IT agency for the Air Force and the Department of Defense, and is located in San Antonio. Due to the success of the AAAA, the community also established a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors. The City is focused on leveraging its IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

Source: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

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Growth Indices

City Public Service Electric and Gas Customers.

As of December 31	Electric Customers	Gas Customers
1993	493,763	292,111
1994	504,810	295,092
1995	516,679	297,654
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503

Source: CPS (defined herein).

San Antonio Water System Average Customers per Fiscal Year.

Fiscal Year Ended May 31[1]	Water Customers[2]
1993	253,902
1994	257,733
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215

[1] On April 3, 2001, the SAWS (defined herein) Board of Trustees approved the changing of SAWS' fiscal from a year-end of May 31 to December 31.
[2] Excluding SAWS irrigation customers.
Source: SAWS (defined herein).

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Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
1993	2,858	$ 194,055,482	91	$ 34,177,025	12,151	$ 388,857,924
1994	3,987	262,104,759	166	68,097,513	13,302	421,324,638
1995	3,925	237,796,446	353	63,396,919	11,588	420,001,031
1996	4,306	261,540,367	171	64,282,630	9,055	578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271

[1] Includes two-family duplex projects.
[2] Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2002	2001	2000	1999	1998	1997
Amarillo	$ 44,201,183	$ 43,357,043	$ 42,474,995	$ 40,781,524	$ 39,276,557	$ 37,611,600
Arlington	42,293,256	65,948,096	65,264,427	60,092,585	57,095,137	54,923,300
Austin	110,208,923	117,393,240	117,818,293	104,915,700	94,261,113	85,272,735
Dallas	192,542,321	210,130,838	215,412,071	198,740,061	189,502,534	173,592,271
El Paso	47,465,776	46,876,210	45,970,014	43,603,400	41,414,498	39,097,126
Fort Worth	72,632,487	72,975,421	71,543,992	68,142,426	64,116,910	57,778,025
Houston	334,122,179	337,540,694	321,095,967	308,508,700	296,149,172	270,268,332
Irving	38,810,594	43,188,105	44,773,277	42,773,277	37,198,548	33,805,687
Plano	45,309,249	47,327,003	47,325,948	40,483,049	36,058,044	32,420,190
SAN ANTONIO	153,207,656	151,422,401	133,360,785	126,060,252	117,583,252	108,526,967

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County, with 41 high schools, 74 middle schools, and 230 elementary schools. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. In addition, Bexar County has 92 accredited private and parochial schools at all education levels. In San Antonio, there are seven accredited universities and four public community colleges, excluding business and professional schools, which had a combined enrollment of 83,344 students for the Fall 2002 semester.

Source: Texas Education Agency.

Employment Statistics

The following table indicates the total civilian employment in the San Antonio MSA for the period of December 2002, as compared to the prior periods of November 2002 and December 2001.

	December 2002	November 2002	December 2001
Civilian Labor Force	807,583	813,875	791,854
Total Unemployment	38,063	41,179	33,495
Total Employment	769,520	772,696	758,359
Unemployment Rate	4.7%	5.1%	4.2%

The following table shows certain nonagricultural wage and salary employment by industry in the San Antonio MSA for the period of December 2002, as compared to the prior periods of November 2002 and December 2001.

	December 2002	November 2002	December 2001
Mining	2,400	2,400	2,300
Construction	44,900	44,600	41,500
Manufacturing	52,400	52,500	53,600
Transportation, Communication, and Utilities	34,400	34,400	35,700
Trade	178,400	176,600	180,800
Finance, Insurance, and Real Estate	51,700	51,700	51,800
Services and Miscellaneous	234,900	235,500	232,000
Federal Government	28,800	28,800	28,200
State Government	15,600	15,600	15,400
Local Government	93,400	93,700	90,400
Total	736,900	735,800	731,700

Source: U. S. Bureau of Labor Statistics; Texas Workforce Commission, Labor Market Information.

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Employers with 500 or More Employers in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)

Construction

Firm	Product/Service	Firm	Product/Service
Bexar Electric Company	Electrical Contractor	Design Electric	Electrical Contractor
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor

Finance, Insurance, Real Estate

Firm	Product/Service	Firm	Product/Service
American Funds Group	Mutual Funds & Investments	Humana	Health Maintenance Organization
Bank of America	Commercial & Individual Banking	Security Service Federal Credit Union	Federal Credit Union
Benefit Planners, LLP	Insurance Claims Administrators	USAA	Insurance/Financial Services
Frost National Bank	Financial Services	Wells Fargo Bank	Financial Services
Homeside Lending, Inc.	Financial Institution	World Savings	Savings Deposits And Loans

Government

Firm	Product/Service	Firm	Product/Service
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks Air Force Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	San Antonio Water System	Water Utility
Lackland AFB/37th Training Wing	Military Installation	Texas Dept of Transportation	Road Construction/Maintenance
Randolph Air Force Base	Military Installation	VIA Metropolitan Transit	Urban Public Transportation

Manufacturing

Firm	Product/Service	Firm	Product/Service
Alamo Concrete Products	Ready-Mix Concrete	Lancer Corporation	Beverage Dispensing Equipment
Bausch & Lomb, Ray-Ban	Sunglasses	Levi Strauss & Company	Menswear
Cardell Cabinetry	Cabinetry	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Clarke American	Check Printing	Miller Curtain Company	Curtains & Draperies
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverage Service	Motorola	Industrial Electronics
Crest Door Systems	Metal Doors	Philips Semi Conductors	Semi-Conductors
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	Plains Cotton Cooperative Assn.	Retail Textile Products
Fairchild Dornier Corporation	Regional Airliners/Corporate Jets	RCC Coozie Inc	Promotional Products
Flextronics Enclosures	Metal Stamping & Plastics	S.M.I.-Texas	Steel Manufacturing & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning	San Antonio Express-News	Newspaper Publishers
Kinetic Concepts, Inc.	Specialty Medical Products	San Antonio Shoe, Inc. (SAS)	Mens and Ladies Shoes
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors

Medical

Firm	Product/Service	Firm	Product/Service
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Health Care System
Alamo Medical Health Group	Psychiatric Clinic	Methodist Specialty & Transplant Hospital	Hospital And Health Care Services
Baptist Health System	Hospital & Health Education	Metropolitan Hospital	General Acute Health Care
University Health System	Health Care And Trauma Services	PacifiCare	Health Plans: HMO, PPO, POS
Brooke Army Medical Center	Military Health Care	San Antonio State Hospital	Mental Illness Treatment
Caremark Prescription Service	Mail Order Pharmacy	San Antonio State School	Mental Health Residential Care
Center for Health Care Services	Mental Health Case Management	Santa Rosa Health Care Corp.	Medical & Surgical Hospitals
Christus Santa Rosa Health Care	Hospital And Health Care	South Texas Veterans Health Care System	General Acute Care Hospital
Guadalupe Valley Hospital	Hospital Services	UT Health Science Ctr. at S.A.	Professional Health Education
McKenna Memorial Hospital	Health Care		

(Table continues on next page.)

Employers with 500 or More Employers in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)

Retail

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Aaron Rents and Sells Furniture	Office & Residential Furniture	Frontier Enterprises	Restaurant Headquarters
Curtis C. Gunn, Inc.	Auto Dealerships	H.E.B. Grocery Company	Groceries & Distributing HQ
Den-Tex Central Inc (dba Denny's)	24-Hour, Full Service Restaurants	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio Inc.	Electronic Customer Service Ctr.
Foley's	Department Store	Super S Foods	Grocery Store

Service

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Administaff, Inc.	Professional Employer Organization	North East ISD	Public School System
Advantage Rent-A-Car	Vehicle Rental	Northside ISD	Public School System
Alamo Community College District	Education & Workforce Dev.	Onpoint	Customer Service Centers
Alamo Heights ISD	Education	Parent/Child Inc.	Early Childhood Development
Allen Tharp & Associates	Caterers	Pinkerton, Inc.	On-Site Security
Archdiocese of San Antonio	Catholic Offices	San Antonio College	Public Community College
Beamer Inc	Family Restaurants	San Antonio I.S.D.	Public School System
Bill Miller Bar-B-Q Ent., Ltd.	Food Service And Catering	Sanitors, Inc.	Commercial Janitorial Services
Cadbeck Staffing	Employee Leasing Seville	Schertz-Cibolo-Universal City ISD	Public School System
Calling Solutions, Inc.	Contract Telemarketing	Sears Teleservice Center	Customer Service Consultants
Citicorp	National Service Center	Seguin ISD	Public School System
Comal ISD	Education	South San Antonio ISD	Public School System
Donald E Kierman	Telecommunications Consultant	Southside ISD	Public School System
East Central ISD	Public School System	Southwest ISD	Public School System
Edgewood ISD	Public School System	Southwest Research Institute	Research and Development
Four Seasons Resort & Club	Hotels	St. Mary's University	Private University
Goodwill Industries of S.A.	Vocational Services	Staff Professionals Inc.	Employee Leasing Service
Harlandale ISD	Public Education	Standard Aero US	Aircraft Engine Repair
Hasslocher Enterprises, Inc.	Restaurant Chain/ Food Distributors	Taco Cabana, Inc.	Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Tanseco Inc./Div. of Radio Shack	C-C TVs, Alarms, Monitors
Hyatt Hill Country Resort	Hotel Resort	Texas Department of Human Svcs.	Social Services
International Business Benefits	Employee Leasing Service	The Psychological Corporation	Test Publishers
Judson ISD	Public School System	Trinity University	Private University
Luby's Cafeterias, Inc.	Cafeterias	University of Texas at San Antonio	Public University
Marriott Rivercenter Hotel	Hotel	Wendy's of San Antonio Inc.	Fast Food Restaurants
Morningside Ministries, Inc.	Retirement Home	West Teleservices Corporation	Telemarketing Service Vendor
New Braunfels ISD	Public School System	Westaff	Full Service Staffing

Transportation, Communications, Utilities

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
AT&T	Long Distance & Local Telephone	Time Warner Cable	Cable TV and Internet Service
City Public Service	Natural Gas and Electric Service	Trans Met Inc.	Freight Transpiration
Clear Channel Communications	TV & Radio Stations, Advertising	U.S. Postal Service	Postal Services
Qwest Communications	Telecommunications	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Southwest Airlines	Air Service And Transportation		

Wholesale

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
CARQUEST Auto Parts (Straus- -Frank Co.)	Automotive Replacement Parts	SYGMA Network, Inc.	Distributor
		Tyson Foods, Inc.	Food Service

Source: January 2002, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

San Antonio Electric and Gas Systems

History and Management

The City acquired its gas and electric utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The various ordinances authorizing the issuance of debt by the City's electric and gas systems (the "EG Systems") establish management requirements and provide that the complete management and control of the EG Systems is vested in a Board of Trustees consisting of five U.S. citizens permanently residing in Bexar County, Texas, known as the "City Public Service Board of San Antonio, Texas" (referred to herein as the "CPS Board," the "Board," or "CPS"). The City's Mayor is a voting member of the CPS Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. In certain cases, a vacancy may be filled by the City Council. The members of the CPS Board are eligible for re-election at the expiration of their first five-year term of office to one additional term only. In 1997, the City Council ordained that CPS Board membership should be representative of four geographic quadrants of Bexar County, as established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in its various bond ordinances. The City has traditionally exercised authority to establish utility rates, authorize condemnation proceedings, and issue bonds, notes, and commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements, and additions to the EG Systems, and to adopt rules for the orderly handling of CPS's affairs. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than $100,000.

In 1997, CPS established a 15-member Citizens Advisory Committee (the "CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement. The primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of the City, the CAC encompasses a broad range of customer groups in order to identify their concerns and articulate their issues. CAC members meet monthly to advise CPS about community issues and concerns with regard to the EG Systems and other aspects of CPS' business.

Service Area and Rates

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within the service area, including the provision of energy service to some federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition, CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that it is not the City's intent to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"), the synchronous interconnected electric system that operates wholly within Texas. CPS has the option of acting in the role of the "Provider of Last Resort" (hereinafter defined) for its service area in the event it chooses to opt-in. (See "*Electric Utility Restructuring In Texas; Senate Bill 7*.")

In addition to the area served at retail rates, CPS sells electricity at wholesale rates for resale to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. In August 2000, the City of Brady awarded CPS a three-year contract to be its wholesale electric provider. This contract became effective December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of gas service areas and CPS competes against other entities on the periphery of its service area.

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of electric "public utilities" is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over the investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes from its coverage "municipally-owned utilities," such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a municipally-owned utility like the EG Systems has exclusive jurisdiction to set rates applicable to all services provided by the municipally-owned electric utility, with the exception of wholesale transmission rates. Unless and until the City Council chooses to opt-in to retail competition, CPS retail service rates are subject to appellate but not original rate regulatory jurisdiction by the PUCT in areas outside the City limits which CPS serves. To date, no appeal of CPS electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. (See "Electric Utility Restructuring in Texas; Senate Bill 7," herein.)

The Texas Railroad Commission ("TRC") has significant original jurisdiction over the rates, services, and operations of "gas utilities." "Municipally-owned utilities" such as CPS are generally excluded from regulation by the TRC. CPS retail gas service rates are subject to appellate but not original rate regulatory jurisdiction by the TRC in areas outside the City limits which CPS serves. To date, no appeal of CPS gas rates has ever been filed.

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), municipally-owned utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA to expressly authorize rate authority over municipal utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS's wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS's input to the calculation of the statewide postage stamp pricing method. The PUCT's rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition which began in 2002, continues electric transmission wholesale open access, and fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT, the interconnected portion of the Texas electric grid in which CPS is located.

SB 7 includes provisions that apply directly to municipally-owned utilities ("Municipal Utilities"), such as the CPS electric system, as well as other provisions that will govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 requires IOUs to have separated their retail energy service activities from regulated utility activities by September 1, 2000 and to have unbundled their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which opt-in to competition are not required to unbundle their electric system components. CPS is taking the steps necessary to unbundle its pricing structure so that it will be in a position to participate in a competitive market in the event that the CPS Board and the City Council choose to opt-in to competition.

Generation assets of IOUs are owned by "Power Generation Companies", which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they will otherwise be unregulated and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are "Transmission and Distribution Utilities" and are fully regulated by the PUCT. Retail sales activities are performed by new companies called "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. They buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in the State (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in retail competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities' transmission facilities, and may order the construction of new facilities to relieve transmission congestion. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than the PUCT. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

Environmental Restrictions of Senate Bill 7. SB 7 also contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality's ("TCEQ", formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of "grandfathered" status. Under the bill, annual emissions of nitrogen oxides ("NO_x") from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for state permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. The NO_x reductions required for SB 7 have already begun and NO_x emissions have been reduced by over 45% system-wide from baseline levels. Future additional expenditures may be required by CPS for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation is directed at all units, including CPS' coal plants. This regulation requires a 50% reduction in NO_x emissions by May 1, 2005. NO_x reductions required for this program have already begun. It is possible that over the upcoming years the Environmental Protection Agency ("EPA"), the

State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. The Clean Air Act regulation of electric utility emissions may change significantly. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission controls will be required at the coal plants in the near future because the EPA has determined to control mercury from power plants. In addition, the rules could also affect combustion turbines and other types of plants, as well as the costs of purchased power from affected resources. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

CPS and other electric utilities are also subject to various existing federal and state laws requiring compliance with environmental rules and regulations. In addition, CPS is also subject to various federal and state laws relating to its facilities as well as various federal and state laws which affect the construction and operation of its facilities.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to help make CPS a more efficient and more competitive utility that delivers value to customers and the City. Major parts of the plan include restructuring and unbundling of rates, formulating a wholesale and retail marketing plan, reorganizing CPS along functional lines, and maintaining a debt and asset management program as further discussed below. These efforts will also have the ongoing support of the CPS Governmental Affairs office, located in Austin, Texas, whose primary role is to review proposed federal and state legislative actions affecting the electric industry and to represent CPS interests in these areas.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the "Debt Management Program") which is designed to lower the debt component of energy costs, maximize the effective use of cash and cash equivalent assets, and enhance its financial flexibility in the future. An important part of the Debt Management Program is debt restructuring through the increased use of variable rate debt, and interest rate swaps where feasible. It is anticipated, however, that the net variable rate exposure of CPS will not exceed 20% of its total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to result in lower interest costs, additional funds for strategic initiatives, and increased net cash flow.

Acquisition of Military Base Facilities. On January 14, 2000, CPS purchased the electric and gas systems of the former Kelly Air Force Base. These facilities include both the area privatized and the portion of Kelly that remains under Air Force control, which is now a part of Lackland AFB. CPS is the full service electric and gas provider for Kelly USA. CPS provides a variety of electric and gas services for Lackland AFB under a General Services Administration contract.

On July 22, 2002, the Brooks City-Base Property was converted to the City. On October 1, 2002, CPS took ownership of the gas and electric infrastructure. All electric and gas metering was completed as of November 15, 2002. CPS is the full service provider for both gas and electric systems.

CPS has submitted a utility privatization proposal to the Army to become the full service provider for the gas and electric infrastructures at both Fort Sam and Camp Bullis. Discussions are in progress.

Concerning Randolph AFB and Lackland AFB, the Air Force's utility privatization proposal for the Texas Regional Demonstration Project has been delayed. CPS submitted its timely response to the Department of Defense's Request for Proposal. Negotiations are expected to resume in the near future.

Electric System

Generating System. CPS operates 16 electric generating units, three of which are coal-fired and 13 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also owns 28% of the two-unit nuclear power plant called the South Texas Project (the "STP").

STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast and approximately 200 miles from the City.

Participants in the STP and their shares therein are as follows:

Participants	Percent Ownership	MW
Texas Genco, L.P., Incorporated	30.8%	770
City Public Service	28.0	700
AEP – Texas Central Company	25.2	630
City of Austin - Austin Energy	16.0	400
TOTAL	100.0%	2,500

CPS agreed to participate in the STP in 1973. Full power operating licenses were issued by the Nuclear Regulatory Commission on March 22, 1988, for Unit 1 of the STP and March 28, 1989, for Unit 2, and the Units went into commercial operation on August 25,1988, and June 19,1989, respectively.

Since November 1997, the STP has been maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company") financed and controlled by the STP owners pursuant to an operating agreement among such owners and STP Nuclear Operating Company. A five-member board of directors governs the STP Nuclear Operating Company, with each STP owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs continue to be shared in proportion to STP ownership interests.

Joint Operating Agreement. CPS and Texas Genco Holdings, Inc., formerly Reliant Energy, Inc., entered into an agreement effective July 1, 1996. The agreement provides that the two entities will jointly dispatch their generating plants (other than the STP) in order to take advantage of the most efficient plants and favorable fuel prices for each entity. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and is expected to continue through the term of the agreement, which ends in 2009.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from the generating stations to various parts of the service area and to or from neighboring utilities as required. This network is composed of 138 and 345 kV lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is supplied by 80 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,291 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 285 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network Distribution lines, and 3,060 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently 70,773 street light units are in service; the vast majority of the lights are high-pressure sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 221 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. Supervisory Control and Data Acquisition computer system ("SCADA") monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of 4,386 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

During the fiscal year ended January 31, 2002, a number of accounting and reporting changes occurred that affect CPS' financial statements. Most significant were the implementation of GASB Statements 33, Accounting and Financial Reporting for Nonexchange Transactions, and 34, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments.

A new software system was implemented for customer billing in August 2002.

During the month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses. On average, about 50% of a month's revenues are unbilled as of the end of the month.

Recent Financial Transactions

On August 15, 2002, the City Council approved the sale of $576,705,000 "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2002" and the legal defeasance of $144,155,000 of certain of its New Series 1997 Bonds.

City Public Service Operating Statement

	Fiscal Years Ended January 31				
	2003[1]	2002	2001	2000	1999
Operating Revenues					
Electric	$ 1,132,788,588	$ 1,028,259,435	$ 1,124,414,415	$ 933,629,335	$ 909,639,200
Gas	168,704,731	172,586,985	214,555,539	107,019,474	114,236,784
Total	1,301,493,319	1,200,846,420	1,338,969,954	1,040,648,809	1,023,875,984
Operating Expenses[2, 3]	740,161,094	688,875,837	754,145,322	520,915,135	500,082,793
Net Operating Income	561,332,225	511,970,583	584,824,632	519,733,674	523,793,191
Non-Operating Income (Net)[2, 4]	29,411,186	49,022,259	51,609,182	39, 319,915	57,528,034
Available for Debt Service	$ 590,743,411	$ 560,992,842	$ 636,433,814	$ 559,053,589	$ 581,321,225
Other Deductions:					
Depreciation	$ (217,036,570)	$ (188,998,839)	$ (197,322,532)	$ (165,177,353)	$ (167,685,579)
Interest on Bonds, Other Interest and Debt Expense	(159,138,600)	(170,212,516)	(173,114,847)	(174,328,911)	(187,090,027)
Interest During Construction	6,776,744	7,060,613	12,593,131	13,286,115	5,716,202
Defeasance of Debt	(7,057,173)	-0-	(2,586,215)	-0-	(24,899,770)
Payments and Refunds to City	(172,235,562)	(168,134,295)	(185,005,847)	(145,473,968)	(144,554,899)
Total Other Deductions:	(548,691,161)	(520,285,037)	(545,436,310)	(471,694,117)	(518,514,073)
Net Income	$ 42,052,250	$ 40,707,805	$ 90,997,504	$ 87,359,472	$ 62,807,152

1 Unaudited.
2 Excludes income and expense related to the Employee Health & Welfare Plans and decommissioning income.
3 Includes nuclear decommissioning expense and regulatory assessments for all 12-month periods shown.
4 Excludes investments fair value adjustment.
Source: CPS.

San Antonio Water System

History and Management

On February 13, 1992, the City Council determined that it was in the best interest of the citizens of the City and its customers to consolidate all water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which approved the creation of the City's water system ("SAWS"), a single unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a storm water system and any other related system to the extent permitted by law.

The City believes that establishing SAWS has helped to reduce the costs of operating, maintaining, and expanding these systems and has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency in a focused fashion.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change.

Except as specified otherwise in various ordinances authorizing SAWS' issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS including the expenditure and application of its gross revenues. With the exception of fixing rates and charges for services rendered by SAWS, the SAWS Board has full power and authority to make rules and regulations governing furnishing to customers, and their subsequent payment for, SAWS' services, along with the discontinuance of said services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,000 miles of water and sewer mains.

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Historical Water Consumption (Million Gallons).

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
5/31/1998	165	271	August	53,592	$ 69,330,004
5/31/1999	159	308	July	53,520	74,317,726
5/31/2000	162	269	August	57,144	80,606,965
5/31/2001	155	267	July	53.047	73,166,293
12/31/2001[1]	159	274	July	34,839	50,517,854
12/31/2001[2]	159	274	July	58,097	74,521,211
12/31/2002[2]	143	222	August	52,303	77,801,600

1 On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
2 Twelve months ending December 31, 2001.
3 Twelve months ending December 31, 2002. Unaudited.
Source: SAWS.

Water Consumption by Customer Class (Million Gallons).

	2002[3]	2001[2]	2001[1]	2001	2000	1999	1998
Residential	28,372	29,003	19,397	28,694	31,008	29,496	29,232
Commercial	11,942	12,371	6,538	12,384	13,536	11,616	11,916
Apartment	7,791	7,718	4,641	7,783	8,148	8,136	8,460
Industrial	2,696	2,670	1,617	2,737	2,724	2,820	2,568
Wholesale	173	531	770	535	624	528	516
Municipal	876	784	350	914	1,104	924	900
	51,850	53,077	33,313	53,047	57,144	53,520	53,592

1 On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
2 Twelve months ending December 31, 2001
3 Twelve months ending December 31, 2002. Unaudited.
Source: SAWS.

System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the "waterworks system"), collection and treatment of wastewater (the "wastewater system"), and treatment and reuse of wastewater (the "water reuse system") (the waterworks system, the wastewater system, and the water reuse system, collectively, the "system"). The system does not include any "Special Projects," which are declared by the City upon the recommendation of the Board, not to be part of the system and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water related utilities that the Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the storm water quality program with the Board and adopted a schedule of rates to be charged for storm water drainage services and programs. As of the date hereof, the storm water program is not deemed to be a part of SAWS.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS served more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 306,900 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 14 elevated storage tanks and 38 ground storage reservoirs with combined storage capacities of 144.7 million gallons. By the end of calendar year 2002, the waterworks system had in place 4,163 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between 6 and 12 inches), and 21,463 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. Created by the City Council in 1894 and significantly improved by a 1960 sewer system expansion program, the wastewater system became a part of SAWS in 1992. The wastewater system serves a population in excess of 1.1 million, which includes City residents, 18 governmental entities, and other customers outside the City's corporate limits, over a 403 square-mile area. The wastewater system is composed of approximately 4,966 miles of mains, three major treatment plants, and one smaller treatment plant, with a combined treatment capacity of 226.7 million gallons per day. In addition, the wastewater system operates and maintains several small satellite facilities that vary in number and are temporary in nature pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system.

Water Reuse System. The Alamo Water Conservation and Reuse District (the "District") was created in 1989 as a conservation and reclamation district with a purpose of conserving, protecting, distributing, and reusing wastewater in order to augment the supply of water in the Edwards Aquifer (as hereinafter defined). In 1992, it was consolidated into SAWS. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and sell non-potable water outside the waterworks system's and wastewater system's boundaries. SAWS has developed a water-recycling program utilizing the wastewater flow and expects within two years to make available for various entities up to 35,000 acre-feet (one acre-foot equals approximately 325,821 gallons), or 20% of SAWS' current use, for non-potable uses, including golf courses and industrial customers that are currently being supplied from the Edwards Aquifer. To facilitate this program, the water reuse system will develop infrastructure to include transmission mains throughout the City, as well as storage and treatment components.

Chilled Water and Steam System. SAWS operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide service to 23 customers. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City's west side. Together, chilled water and steam services produced $11,115,021 in gross revenues for the 2002 fiscal year.

Storm Water System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity, in response to EPA-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit") for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement contract to set forth the specific responsibilities of each for the implementation of the requirements under the Permit. The approved annual budget for SAWS' share of program responsibilities for the 2002 fiscal year was $2,358,933, for which SAWS is reimbursed from storm water drainage charges assessed by the City.

Water Supply

Historically and currently, the City obtains all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edwards Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from 5 to 30 miles in width and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but areas of population ranging from communities with only a few hundred residents to urban areas with well over one million citizens exist, as well. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed with Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer, even during the extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City's index well has been about 91 feet, with the recorded low of 612 feet above sea level in August, 1956 and a recorded high of 703 feet above sea level in June, 1992. The historical (1934 to 2001) average water level at the index well in San Antonio is approximately 664 feet above sea level. SAWS sets all pumps at 575 feet to ensure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with storm water runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the "recharge zone." The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800's. Beginning in the 1980's and continuing today, however, the conservation and regulation of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. The Edwards Aquifer Authority was created by the Texas Legislature in 1993 with the passage of the Edwards Aquifer Authority Act to preserve and protect this unique groundwater resource. The Edwards Aquifer Authority acts as a regulatory agency charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources supplementing its use of the Edwards Aquifer will be required to meet the City's long-term water needs.

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SAWS' Resource Development Department is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures to identification and procurement of completely new and independent water sources. These efforts are guided by the 1998 Water Resource Plan, the first comprehensive, widely supported water resource plan for the City, which established programs for formulating and implementing both immediate and long-term water plans to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection. The fee is based upon a uniform rate per 100 gallons of water used and is applied to all customers. The Water Supply Fee is projected to generate sufficient revenue to support approximately $519 million in capital expenditures, as well as sufficient operational funds to conduct the planning, operation, and maintenance of such water resource facilities through 2005. The multi-year financial plan will be updated every three years to ensure sufficient revenues are available to meet the water resource requirements. A listing of scheduled water supply fees for years 2001-2005 is provided in the following table:

Year	Incremental Charge Per 100 Gallons	Total Charge Per 100 Gallons
2001	$ 0.0358	$ 0.0358
2002	0.0350	0.0708
2003	0.0230	0.0938
2004	0.0190	0.1128
2005	0.0250	0.1378

Source: SAWS, approved by City Council.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical management plan, conservation, agricultural irrigation efficiencies, reuse, surface water, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery. SAWS has already initiated and/or implemented many such programs in an effort to increase the supply of water available to the City. Development of additional non-Edwards Aquifer supplies as described below should result in predictable and certain water supply necessary to meet anticipated peak demands.

Conservation Program. Beginning in 1994, SAWS has progressively implemented an aggressive water conservation program which aims to reduce pumping to 140 gallons per person per day by 2008 and ultimately reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a variety of means including consumer education, rebates for water-efficient technologies, system improvements to prevent water loss, and other measures. SAWS has a unique commercial conservation program as well as a strong residential program.

SAWS has also developed partnerships with local authorities, ground water districts, and purveyors to ensure the conservation messages and programs are available throughout the region. The Water Advisory Group, consisting of cities throughout Bexar County and the Edwards Aquifer region meets regularly to coordinate conservation, drought management, and other water resource policies.

Agricultural Irrigation Efficiency. SAWS has been successful in developing partners throughout the region, as well as with federal agencies, through cost-share programs. The amount of $500,000 for fiscal year 2002 has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. The System has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the Army Corps of Engineers, the Natural Resource Conservation Service, and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Water Reuse Program. The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside SAWS' water and wastewater service area. SAWS has developed a water reuse program utilizing the wastewater flow. The reuse water system producing approximately 35,000 acre feet per year is now in the fourth year of active construction and approximately 99% complete. SAWS anticipates a delivery of reuse water at or near capacity within two years. Construction efforts have been concentrated on completion of two major branches of the water reuse system serving the eastern and western portions of the City. Acceptance testing of the newly constructed pipeline segments is now underway. SAWS anticipates operation of this program at full capacity within two years, culminating in the conversion to non-potable water uses for those currently using Edwards Aquifer water. Upon completion, SAWS will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of SAWS' current usage. This infrastructure project will have transmission mains throughout the City, as well as storage and treatment components. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the Bexar County. SAWS has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of SAWS gross revenues, and are not included in any transfers to the City.

Simsboro Project. On December 30, 1998, a contract for the delivery of up to 60,000 acre-feet of water annually from the Simsboro Aquifer was executed with the Aluminum Company of America. At the same time, SAWS acquired the permanent right to produce groundwater from approximately 11,500 acres of land in the Simsboro Aquifer owned by CPS. The ALCOA and CPS contracts collectively constitute the Simsboro Project. Groundwater availability studies conclude that 55,000 acre-feet per year can be sustainable from a combination of groundwater production from both contracts. This project has been included in the approved State Water Plan. The Project is scheduled to begin delivering water in 2015 at an estimated Project cost to the System of $300 million.

Guadalupe-Blanco River Authority/San Antonio River Authority Project. SAWS joined with San Antonio River Authority to jointly develop a project to deliver approximately 94,000 acre-feet per year of water throughout the San Antonio River basin. In May 2001, the partners executed a contract with GBRA for delivery of 70,000 acre-feet of water from the Guadalupe River. The contract provides for delivery of water for 50 years as well as a seven-year period to define specific delivery plans for the project. The diversion for the project is located at the mouth of the Guadalupe River near the community of Tivoli. This contract provides a substantial volume of water that will be augmented from currently unappropriated surface water rights and groundwater from the Gulf Coast Aquifer. Permits authorizing delivery of the surface water to Bexar County have not yet been obtained. A competing application for the unappropriated flows has been filed by the San Marcos River Foundation. Capital costs for the 94,000 acre-feet per year project are estimated at $375 million, with delivery scheduled for 2010-2012.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues.

- $12 million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities;
- $21 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system;
- $22 million is budgeted to replace sewer and water mains;
- $20 million is budgeted for the governmental replacement and relocation program;
- $9 million is budgeted to construct new production facilities; and
- $68 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

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SAWS contemplates the following capital improvement projects:

	Fiscal Year Ended December 31					
	2003	2004	2005	2006	2007	Total
Heating & Cooling	$ 805,200	$ 854,237	$ 1,497,692	$ 441,987	$ 405,514	$ 4,004,630
Water Delivery	36,728,000	62,281,704	38,656,310	38,230,540	45,217,369	221,113,923
Wastewater	73,271,177	75,941,910	88,917,928	79,266,772	83,896,781	401,294,568
Water Supply	68,236,380	92,689,920	150,878,192	210,143,533	124,508,450	646,456,475
Total Annual Requirements	$ 179,040,757	$ 231,770,757	$ 279,950,122	$ 328,082,832	$ 254,028,114	$ 1,272,869,596

Project Funding Approach

The following table was prepared by SAWS staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Fiscal Year Ended December 31				
	2003	2004	2005	2006	2007
Revenues	$ 20,208,724	$ 22,478,774	$ 24,112,840	$ 28,614,935	$ 32,361,678
Impact Fees	10,205,000	12,714,660	12,892,666	13,073,163	13,256,187
Debt Proceeds	148,627,033	196,574,337	242,944,616	286,394,734	208,410,249
Total	$ 179,040,757	$ 231,767,771	$ 279,950,122	$ 328,082,832	$ 254,028,114

Recent Financial Transactions

On February 7, 2002, the City Council authorized the negotiated sale of $300,510,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002.

On February 28, 2002, the City Council authorized the placement of $137,820,000 City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A and the placement of $27,740,000 City of San Antonio, Texas Junior Lien Water System Revenue Bonds, Series 2002 and Series 2002-A with the Texas Water Development Board.

On March 13, 2003, the City Council anticipates authorizing the placement of $72,500,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A" and $50,000,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-B", with delivery of both series of bonds to occur on or about March 27, 2003. Also on March 13, 2003, the City Council anticipates authorizing the placement of $34,000,000 "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003" with the Texas Water Development Board, with delivery of such bonds to occur on or about April 30, 2003.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage

	December 31		Fiscal Year Ended May 31				
	2002[3]	2001[3]	2001[1]	2001	2000	1999	1998
Revenues							
Water System	58,873,352	79,451,701	52,803,937	$ 77,044,280	$ 82,485,798	$ 80,975,392	$ 74,027,065
Water Supply	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493	2,141,286
Wastewater System	89,226,899	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036	92,095,892
Chilled Water and Steam System	11,115,021	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203	4,028,591
Non Operating Revenues[5]	30,773,197		12,249,485	7,341,296	8,468,123	5,494,022	7,649,669
Adjustments for Pledged Revenues	(7,583,370)		(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)	(5,971,694)
Total Revenues	$ 258,572,151	$ 216,474,189	$ 143,183,967	$ 202,890,841	$ 197,446,420	$ 181,801,381	$ 173,970,809
Maintenance and Operating Expenses	$ 137,441,940	$ 134,616,252	$ 78,448,318	$ 121,350,696	$ 115,016,340	$ 100,429,763	$ 93,883,767
Net Available for Debt Service	$ 121,130,211	$ 81,857,937	$ 64,735,649	$ 81,540,145	$ 82,430,080	$ 81,371,618	$ 80,807,042
Max Annual Debt Service Requirements – Total Debt	$ 66,267,591	$ 65,767,934	N/A	$ 66,994,372	$ 62,099,234	$ 49,385,448	$ 49,385,448
Max Annual Debt Service Requirements – Senior Lien Debt	$ 61,511,375	$ 55,236,354	N/A	$ 56,293,054	$ 53,566,454	$ 49,385,448	$ 49,385,448
Debt Service for Period							
Coverage of Total Debt	1.83 X	1.24 X	1.70 X	1.22 X	1.33 X	1.65 X	1.62 X
Coverage of Senior Lien Debt	1.97 X	1.48 X	N/A	1.45 X	1.54 X	1.65 X	1.62 X

1 On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven (7) months ending December 31, 2001.

2 Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34.

3 Twelve (12) months ending December 31, 2001 and December 31, 2002. Unaudited.

Source: SAWS.

The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

In March 2002, the Federal Aviation Authority ("FAA") honored one airport in each state in its five-state Southwest Region with the Year 2001 Outstanding Airport Award, recognizing contributions each airport made to enhance aviation in its respective state. The FAA uses this award to honor airport owners and operators for their overall diligence in the planning and implementation of projects, airport maintenance, use of airport improvement program resources, and compliance with safety standards. The International Airport was chosen as the 2001 recipient of this award for the State of Texas.

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second level gates. Presently, domestic air carriers providing scheduled service to San Antonio are American, America West, Atlantic Southeast, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, and United. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The City is currently implementing portions of its Airport Master Plan, including designs allowing for an increase from 24 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson.

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally owned airports. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport.

Capital Improvement Plan

General. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP) pursuant to the Master Plan for the International Airport. The CIP is scheduled to conclude in fiscal year 2011, but the actual time of such conclusion may change as circumstances permit. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron. The preliminary cost estimates total approximately $425.6 million for terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the CIP are as follows:

Funding Sources	**Anticipated Funding**
Federal Grants	
Entitlements	$ 42,076,988
General Discretionary	32,559,188
Noise Discretionary	25,455,364
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	48,854,994
PFCs Secured Bonds	78,962,584
Other Funding	
Airport Funds	80,981,126
Airport Revenue Bonds	116,702,356
Total – All Sources	$425,592,600

The CIP includes capital improvements, which are generally described as follows:

Improvement	Amount
International Airport	
Terminal/Gate Expansion	$ 124,218,231
Airfield Improvements	177,035,099
Cargo Facilities	8,184,000
Roadway Improvements	19,021,927
Parking Improvements	51,785,000
Aircraft Apron	6,721,955
Other (Building Imp., Drainage, Radio System, Etc.)	32,726,388
Stinson Airport	5,900,000
Total	$425,592,600

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (defined below) and the implementing regulations issued by the FAA.

The City, as the owner and operator of the Airport, has received authority to "impose and use" PFCs at the $3.00 level on five new projects and to "impose only" PFCs on six additional new projects. The FAA issued a Record of Decision on August 29, 2001 approving the City's PFC application, and the City began on November 21, 2001 collecting a $3.00 PFC (less than $0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately $102.5 million in PFC Revenues will be required to provide funding for these projects at the Airport included in the CIP land which are listed below.

The following projects have been approved as "impose and use" projects:

Construct 30L Holding Apron
Modify Wash Rack Apron
Replace RON (remain overnight) Apron
Implement Terminal Modifications
Reconstruct Perimeter Road

The following projects have been approved as "impose only" projects:

Implement Acoustical Treatment Program
Construct Three High-Speed Taxiways
Extend Runway 21 and Associated Development
Construct New Concourse B
Construct Concourse B Access Road
Construct Aircraft Rescue and Firefighting Training Facility

Terminal Renovations. A comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the International Airport. The project, which is estimated to cost $27.5 million, and is included in the CIP, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets will be at airside locations.

Parking Improvements. In 1996, a parking expansion study recommended the development of a new parking garage, reconfiguration of access roadways, and development of a new cashier plaza. Construction began on this project in October 1997 and was completed in October 1999. The Airport System operates and maintains approximately 6,100 public parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. Due to continued growth in airline activity, the expanded parking system is currently running at or near capacity.

A parking study was developed for the Airport in August 2001 by AGA Consulting, Inc, with it concluding that further expansion to the parking system is required. That study indicates that projected peak period demand for Airport parking will exceed the available supply by the end of 2004. Estimates demonstrate that 2,400 additional parking spaces will be required in 2004 to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The design contract is expected to be awarded in early 2003, while the construction development process for new parking facilities is expected to start before the end of 2003. The associated costs are included in the CIP.

Cargo Improvements. Cargo has been one of the fastest growing activities at the International Airport over the last ten years. The Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics recently constructed its own facility. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth, and additional warehouse and office facilities are currently planned. Foreign trade zones exist at both cargo areas.

Airport Operations

General. The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City of San Antonio Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

Terrorist Attacks' Financial Impact on the Airport. Heightened security requirements as a result of the terrorist attacks of September 11, 2001 on New York City and the Pentagon has had an adverse impact on the Airport's operating budget. For fiscal year ending September 30, 2002, approximately $1,085,000 was spent on new security measures. A significant portion of this expense, however, represents one-time costs of certain security-related equipment purchases.

For fiscal year ending September 30, 2003, operating expenditures on security measures are estimated at $840,000, $400,000 of which is anticipated to come from federal sources. The remaining $440,000 will be made available from the Airport's Operating Fund. Future annual operating expenditures are expected to remain at the current fiscal year's $840,000 level. The portion of this expense for which the Airport is responsible in incorporated into airline rates and charges. At this time, future capital costs associated with baggage screening are unknown. A terminal programming study, initiated for the purpose of determining facility requirements and potential costs of an in-line baggage system, is currently underway.

Future Financings. On May 17, 2001, the City sold $50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to $4,205,029. Such bonds will be delivered on or about April 8, 2003.

On May 1, 2003, the City anticipates issuing and delivering two separate series of revenue bonds payable from its collection of gross revenues of the Airport System, to-wit: $8,330,000 "City of San Antonio, Texas Airport System Revenue Bonds, Series 2003-A" and $3,285,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B". The proceeds from the respective issuances of such bonds will be used to refund certain of the City's other debt obligations payable from its collection of gross revenues of the Airport System.

Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below:

	Fiscal Years Ended September 30				
	1998	1999	2000	2001	2002[2]
Gross Revenues[1]	$ 37,134,969	$ 38,128,184	$ 41,523,081	$ 42,928,794	$ 42,377,654
Airline Rental Credit	3,763,781	3,510,267	6,175,754	5,209,037	4,468,199
Adjusted Gross Revenues	$ 40,898,750	$ 41,638,451	$ 47,698,835	$ 48,137,831	$ 46,845,853
Expenses	(19,469,337)	(21,449,007)	(21,585,826)	(23,612,635)	(22,296,698)
Net Income	$ 21,429,413	$ 20,189,444	$ 26,113,009	$ 24,525,196	$ 24,549,155

1 As reported in the City of San Antonio's audited financial statements.

2 Unaudited.

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

The total domestic and international enplaned passengers on a calendar basis, along with year to year percentage change:

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	2,860,225	--	--
1994	3,064,768	204,543	7.15%
1995	3,058,536	(6,232)	(0.20%)
1996	3,568,328	509,792	16.67%
1997	3,484,141	(84,187)	(2.36%)
1998	3,505,372	21,231	0.61%
1999	3,538,070	32,698	0.93%
2000	3,647,094	109,024	3.08%
2001	3,444,875	(202,219)	(5.54%)
2002	3,349,146	(95,729)	(2.78%)

Source: City of San Antonio, Department of Aviation.

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Total Enplaned/Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers at the International Airport on a calendar year basis are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	253,321	--	--
1994	238,957	(14,364)	(5.67%)
1995	141,645	(97,312)	(40.72%)
1996	193,843	52,198	36.85%
1997	200,965	7,122	3.67%
1998	246,902	45,937	22.86%
1999	229,397	(17,505)	(7.09%)
2000	243,525	14,128	6.16%
2001	219,352	(24,173)	(9.93%)
2002	201,274	(18,078)	(8.24%)

Source: City of San Antonio, Aviation Department.

Air Carrier Landed Weight - San Antonio International Airport

The historical aircraft landed weight at the International Airport in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	5,271,426	--	--
1994	5,653,573	382,147	7.25%
1995	5,273,701	(379,872)	(6.72%)
1996	5,555,613	281,912	5.35%
1997	5,530,247	(25,366)	(0.46%)
1998	5,601,616	71,369	1.29%
1999	5,778,407	176,791	3.16%
2000	5,838,185	59,778	1.03%
2001	5,546,561	(291,624)	(5.00%)
2002	5,559,018	12,457	0.22%

Source: City of San Antonio, Aviation Department.

* * *

APPENDIX B

EXCERPTS FROM THE CITY OF SAN ANTONIO'S AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002.

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CITY OF SAN ANTONIO
P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

February 13, 2002

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2001. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc. at AA+, Standard & Poor's Public Finance Ratings Services at AA+, and Moody's Investors Service at Aa2. The ratings reflect strong financial management and position with continued strong economic and tax base growth.

This report is prepared and presented by the City's Finance Department. Accordingly, the responsibility for the accuracy, completeness and fairness of the data and presentation, including all disclosures, rests with the City. The public accounting firms KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, have audited the financial statements and supplemental schedules contained herein. As reflected in the City's independent auditors' report, the data in the CAFR, including the City's financial position, results of our operations, and the liquidity of its various funds and account groups is presented fairly in all material respects.

The CAFR is presented in three sections: Introductory, Financial, and Statistical.

- The Introductory Section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.

- The Financial Section includes the Independent Auditors' Report, the general purpose financial statements, and the combining individual fund and account group financial statements.

- The Statistical Section consists of selected financial and demographic information presented on a multi-year basis.

In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the general purpose financial statements, combining and individual fund statements, and required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents. As in the past, the City will prepare and submit recommendations on any single audit findings of noncompliance with applicable regulations for corrective action in order to achieve compliance in the future.

THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. In fiscal year 2001, the City annexed an area of 12.89 square miles and as of September 30, 2001, its geographic area was approximately 430.02 square miles. The United States Census Bureau cites the City as the third largest city in the state of Texas and ninth largest city in the country. The estimated population grew from 1,207,500 in fiscal year 2000 to 1,226,250 in fiscal year 2001, an increase of 1.6%.

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, and the City of San Antonio Texas Municipal Facilities Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), the San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees.

For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Footnote No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources which include ad valorem taxes, hotel/motel tax, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City Public Service (CPS) is one of the largest municipally owned utilities in the country. It provides electric and gas services to the greater San Antonio area. CPS operations and debt service requirements for capital improvements are funded by revenue derived from charges to its customers. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. In this report, CPS is included as a significant discretely presented Proprietary Component Unit Fund. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. Additional information regarding CPS is discussed in the section "Infrastructure Development".

THE REPORTING ENTITY AND CITY SERVICES (Continued)

Services (Continued)

San Antonio Water System (SAWS) provides water, wastewater, chilled water, steam and reuse water services to the San Antonio area. SAWS is a City owned, separate consolidated entity that addresses water related issues in a coordinated and unified manner. Revenues from its customers fund SAWS' operations, capital improvements, and related debt service requirements. Similar to CPS, the City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is governed by a Board of Trustees that includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. SAWS is included as a significant discretely presented Proprietary Component Unit Fund, and it is discussed further in the "Infrastructure Development" section.

The San Antonio Development Agency's (SADA) mission is to focus on housing with emphasis on activities inside Loop 410 while continuing the implementation of the City's Urban Renewal Program. It may designate for urban renewal such areas, as it deems advisable, subject to approval by the City Council and the federal agency that administers the overall program. A majority of SADA's funding is provided from the City as pass-through grants. The board of SADA is composed of seven members appointed by the City Council.

The City of San Antonio Education Facilities Corporation (SAEFC), formerly the San Antonio Higher Education Authority, was established in accordance with State law for the purpose of aiding non-profit institutions of higher education in providing educational and dormitory facilities. This corporation is authorized to issue revenue bonds for the purposes previously mentioned, but said bonds are not obligations of the City. An eleven member Board of Directors appointed by the City Council governs the SAEFC for two-year terms.

The Greater Kelly Development Authority (GKDA) is charged with the task of all issues related to the closure, conversion, redevelopment, and future use of Kelly Air Force Base. The GKDA is also responsible for reviewing all options related to the most appropriate uses of the property on the base and surrounding areas. An eleven member Board of Directors appointed by the City Council governs the GKDA.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) was organized for the purposes of supporting charitable, educational and scientific undertakings, and to provide housing for low and moderate-income families. The SAHTF is also responsible for the administration and operations of the City's Housing Trust Fund, established for the same purpose noted above. An eleven member Board of Directors appointed by the City Council governs the SAHTF.

The San Antonio Local Development Company, Inc. (SALDC) participates in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration (EDA), and the U.S. Department of Housing and Urban Development (HUD). The SALDC administers and operates the NBRP revolving loan fund that provides qualifying local businesses with loans under economic development programs administered by the SBA. The SALDC also administers, by agreement with the City, a U.S. Department of Commerce Title IX revolving loan fund, a HUD 108 Fund, an Enterprise Communities Loan Program, and an SBA MicroLoan Program. A thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees govern the SALDC.

ECONOMIC OVERVIEW

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has been an integral part by completing "A Strategic Plan for Enhanced Economic Development" and establishing a new economic development collaboration named San Antonio, Inc. in May 2001. It is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as

ECONOMIC OVERVIEW (Continued)

providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. In the wake of the North American Free Trade Agreement ("NAFTA"), San Antonio has been able to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets, and it enjoys close cultural and business ties to that nation. San Antonio's leading industries include biomedical research and health services, international trade and distribution, telecommunications, tourism, and financial services.

Employment Sectors

San Antonio's employment sectors (nonagricultural) distribution as of September 2001, according to statistics provided by the Texas Workforce Commission are as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/Lost (9/00 to 9/01)	%Increase (9/00 to 9/01)
Services	32.45%	8,800	3.67%
Retail & Wholesale Trade	24.43%	5,500	3.04%
Government	17.18%	(6,500)	(5.11%)
Manufacturing	7.49%	100	0.18%
Finance, Insurance & Real Estate	6.99%	(300)	(0.58%)
Construction	5.61%	2,100	5.06%
Other	5.85%	6,300	14.55%
Total	100.00%	16,000	2.21%

The total number of San Antonio's nonagricultural jobs in September 2001 was 739,800, a gain of 16,000 jobs (or 2.21%) over September 2000. The City's largest employment sectors are Services, Retail and Wholesale Trade, and Government, which comprise about 74% of the area's employment. Transportation and public utilities within the Other sector, posted the greatest gain in sheer numbers as well as the greatest gain in terms of percentage growth.

The City's health care sector, a component of Services, provides major health care services through its medical, research, education, and development facilities. The City's biomedical industry continues to dominate as the largest industry segment in the San Antonio economy. The Greater San Antonio Chamber of Commerce's Biomedical Economic Impact Study 2001 announced that this industry had a total direct economic impact of $8.1 billion in 2000. This industry provides 14% of all jobs in the San Antonio area, employing more than 96,000 with an annual payroll of $3 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Additionally, employees in the health care sector earn more than the San Antonio average wage.

San Antonio is unique because our research institutions have a strong array of expertise in basic and applied research talents in instrumentation, pharmacology, diabetes, cancer therapy, transplant medicine, geriatric medicine, dental medicine, specialized medical instruments, and information security technologies. These strengths provide San Antonio with a rich collection of world-class research facilities, affording us the opportunity to capitalize and leverage this significant combination of resources.

Some of the biomedical assets that this City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, Brooke Army Medical Center (BAMC), Brooks Air Force Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International,

Employment Sectors (Continued)

Mission Pharmacol, Probetex, OsteoBiologics, Philips Semiconductor of San Antonio, Research Dynamics, Inc., Sony Semiconductor Company of America, Southwest Foundation for Biomedical Research (SFBR), Southwest Oncology Group, Southwest Research Institute (SwRI), TEKSA Innovations, Texas Blood and Tissue Center, Texas Research Park Foundation, the University of Texas at San Antonio (UTSA), University Hospital, University of Texas Health Science Center (UTHSC), USAF School of Aerospace Medicine, U.S. Army Institute of Surgical Research, U.S. Army Medical Department Center and School, and USAF Wilford Hall Medical Center.

Additionally, San Antonio has three major military hospitals which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC) is an acute care facility, which provides complete medical care to military healthcare beneficiaries in the south central United States, and specialized care to patients from all over the world. WHMC contains the only Eye Bank within the Department of Defense and operates the only military programs for liver transplantation and allogenic bone marrow transplantation. The Brooke Army Medical Center (BAMC) is an ultra modern, state-of-the-art acute care facility that provides trauma care and graduate medical education, and contains the world-renowned Institute of Surgical Research Burn Center. Both WHMC and BAMC support the surrounding local communities by participating fully in the trauma and emergency medical care of the San Antonio and South Texas civilian communities. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services, which is dedicated to medical investigations. It serves forty-one counties and a veteran population of 300,000 throughout South Texas.

Recent terrorist events resulted in unforeseen national defense strategies. The nation is faced with having to protect its citizens from the direct effects of biological warfare. In addition, a more concentrated effort to mitigate or prevent biological terrorism has been generated in the information security industries. As a result of San Antonio's rich biosciences and information technology industries, the City has positioned itself to surface as the world's foremost Homeland Security Solutions City. The biosciences and information technology industries will play a pivotal role in applying the skills and expertise to security efforts. A collaboration between the Air Intelligence Agency (AIA), UTSA, Trinity University, University of the Incarnate Word, and the Alamo Community College District (ACCD) has been designed to leverage San Antonio's Infrastructure and Assurance (IAS) strengths as part of the solution to the nation's Homeland Defense. This collaboration will also determine infrastructure and assurances deficits. Targeted areas of research will focus on both Department of Defense and industry vulnerability issues to include infrastructure protection, convergence security, intrusion detection, computer forensics, security technician training, privacy, and biometrics.

The hospitality industry represents another major component of the Services sector. San Antonio's natural, historic, cultural and recreational attractions have long made it one of the top vacation and convention destinations in the country. This has resulted in an increase in tourism activity, economic impact and employment opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in approximately 1,087 conventions in fiscal year 2001, with 894,626 associated room nights and an estimated economic impact of $488.5 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 3.3 million room nights from November 2001 through 2020.

Significant hospitality industry developments include the completion of the Henry B. Gonzalez Convention Center Expansion and Renovation Project. Phase I encompassed a bright new addition to the center that is integrated into San Antonio's River Walk and the surrounding HemisFair Park. Phase II comprised improvements made to the existing convention facilities. The completion of the expansion and renovation project has increased

Employment Sectors (Continued)

the contiguous exhibit hall space to approximately 440,000 square feet, while the facility's building footprint is now more than 1.3 million gross square feet. Other major hospitality events include the recent opening of the 508 room Westin La Cantera Resort, additional attractions added to Six Flags Fiesta Texas theme park, and the 474 room Westin River Walk, a full-service hotel that opened in the Fall of 1999.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2001, the military employed approximately 74,427 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about $3 billion. Four major installations comprise the military sector: Brooks, Lackland, Randolph, and Fort Sam Houston.

Additionally, San Antonio's stature as a location for corporate headquarters is growing. SBC, Inc., a leading telecommunication business, has successfully used its San Antonio base for growing its business not only in the Southwestern and Western states, but also in the Northeast. United Services Automobile Association (USAA), a leading insurance agency, is undergoing a major expansion of its headquarter operations in the City and continues to be the City's largest private sector employer. Clear Channel Communications, Inc., also headquartered in San Antonio, is a global leader in the out-of-home advertising industry with radio and television stations, and other entertainment venues in forty countries around the world. New headquarters have also been built for San Antonio's two biggest energy companies, the Valero Energy Corporation, which opened a major new office structure near downtown in 1999, and Ultramar Diamond Shamrock, which recently completed a campus-style headquarters near the University of Texas at San Antonio. Valero Energy Corporation and Ultramar Diamond Shamrock merged in 2001 to form one corporation with corporate headquarters remaining in San Antonio. Clarke American Checks, the third largest producer of checks and financial forms in the country with headquarters in San Antonio, expanded its local presence in 1999 with the addition of a major customer service center.

San Antonio is being recognized as a center for national and international business service operations. This is evidenced by companies such as Chase, CitiCorp, WorldCom, World Savings & Loan, QVC, Kraft, and other companies which have established substantial business operations in San Antonio that provide billing services, technical and communications services, financial services, customer service and other functions to their entire organizations.

Business Climate and Outlook

In response to recent terrorism events, the Mayor appointed the Blue Ribbon Commission on San Antonio's Economy. The commission is comprised of seven task forces that will evaluate the local economy and make recommendations to counter the economic slowdown resulting from the terrorism. The commission will focus on key economic sectors and identify new, innovative, and resourceful solutions for both the short-term and long-term actions to stimulate and sustain the local economy. As a result, San Antonio's economy is still stronger than the nation's average.

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

The City's Economic Development Department (EDD), in coordination with the private, non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

expand. In 2001, approximately 3,205 jobs were created through economic development programs. Among the companies that located or expanded business operations in San Antonio in 2001 include Zachry Corporation, Chase Bank, Boeing, and Chromalloy.

The Industry Development Division of the City's EDD continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of KellyUSA, formerly Kelly Air Force Base, which officially closed on July 13, 2001. EDD is also working with community groups and the other military bases, such as Brooks AFB and Fort Sam Houston Army Base, to explore ways that the City can help these local installations become more cost efficient, reduce infrastructure support costs, preserve jobs and enhance economic development opportunities.

KellyUSA
At KellyUSA, the Greater Kelly Development Authority (GKDA) continues implementation of the community's 1995 Initial Base Adjustment Strategy Committee strategic plan. To date, GKDA has successfully created over 5,000 new commercial jobs and leased out 70% of the available space. New tenants include major aerospace industry players such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero and Pratt & Whitney. In the past 12 months, GKDA has completed over $70 million in new construction and facility upgrades, to include the building of a new hangar facility to accommodate Boeing's expansion. Boeing now employs approximately 2,000 personnel as they continue to expand and grow their operations at KellyUSA.

With the anticipated completion of the City's Air Cargo Study in 2002, planning is also underway to establish air cargo operations at KellyUSA. In addition, GKDA is partnering with the City, the Port of Corpus Christi, the Texas Department of Transportation and major railroad companies to establish inter-modal operations at KellyUSA with critical linkage to the planned Kelly Parkway. The success of this initiative is key to creating Inland Port San Antonio and establishing San Antonio as a major center of logistics and distribution for NAFTA trade.

Brooks City-Base
Congress granted the Air Force special authority to improve mission effectiveness and reduce the cost of providing quality installation support at Brooks Air Force Base (AFB) by passing special legislation in October 1999 which was then amended in September 2001. This special authority allows Brooks AFB to transfer and lease back federal land in a more streamlined manner without being subjected to some existing federal property statutes and presents an opportunity for high quality, multiple-use development in a unique public-private partnership with the Air Force. Development of underutilized real property, including sale or lease of Air Force assets, is part of an integrated strategy for transforming the base into a technology and business park.

Situated on 1,310 acres on the southeast side of San Antonio, Brooks AFB has over two million square feet of buildings and provides employment for approximately 3,500 highly educated people, including 1,800 military personnel. Of the 1,310 acres, nearly a square mile (510 acres) is prime undeveloped land. The base provides expert consultation in a broad spectrum of environmental fields. In addition to the environmental aspects of Brooks AFB contributions, the School of Aerospace Medicine provides medical education and training for Air Force personnel. The Air Force Research laboratory uses world-class facilities to direct energy bioeffects, aerospace physiology, and intelligence training and tutor technology research for the Air Force.

Legislative authority to use Brooks AFB as a demonstration model for more efficient operation of military installations makes this project an important one for the Air Force, the private sector and for the City. The enabling legislation permits the Air Force, among other things, the opportunity to convey real property assets at Brooks AFB and lease back the facilities required for mission accomplishment. Congress

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Brooks City-Base (Continued)
allowed the Air Force to use this authority "to convey or transfer real and personal property located at the Base to the Community or to another public or private party."

The City's primary focus has been on retaining over approximately 3,500 jobs at Brooks AFB by making Brooks AFB more cost efficient, enhancing economic development opportunities for the surrounding community, and operating Brooks AFB as a financially self-sustaining enterprise. The first step in transferring ownership occurred in December 2001 with the execution of a non-binding agreement between the City and the United States Air Force. This agreement sets forth the general terms and conditions for the transfer of base ownership. Since August 2000, the Air Force and the City have been negotiating the terms and conditions of the final transfer agreement.

To carry out this development strategy, the Air Force is partnering with the City and is pursuing the conveyance of Brooks AFB property to the "Brooks Development Authority", which was established by San Antonio City Council Resolution on September 27th, 2001. The Brooks Development Authority will leaseback facilities to the Air Force, provide municipal and property management services, and promote economic development of available land and facilities. It is anticipated that the contractual documents will be executed by summer of 2002 with a transfer of the property to follow.

Fort Sam Houston
At Fort Sam Houston the Army has signed a fifty-year lease with Orion Partners, Inc. and Roy F. Weston, Inc. on 502,196 square feet of space in three historic buildings--the old Brooke Army Medical Center and two wings of the Beach Pavilion Complex. Orion/Weston expects to finance approximately $50 million in renovations secured through long-term leases with commercial public sector tenants. The success of this unique partnership is critical to assisting the Army in reducing infrastructure maintenance costs and generating net cash flow for both the Army and Orion/Weston. The City is assisting Orion/Weston in finding tenants for these facilities.

San Antonio Technology Accelerator Initiative (SATAI)
SATAI is a collaborative effort that identified opportunities for economic development for San Antonio's technology industries. Four technology cluster groups (biosciences, information technology, telecommunication, and aviation) were identified as San Antonio's competencies. The results of the collaborative effort are the development of the SATAI Network. The SATAI is an industry driven and multi-stakeholder organization that will accelerate the entrepreneurial job creation and increase community income through the growth of the technology sector of the San Antonio economy. The City continues to play an active role in the organization by serving on several SATAI committees and by hosting, on City computers, the online SATAI directory of local technology providers.

Aviation Industry Development
The City has three airport facilities: San Antonio International Airport, Stinson Municipal Airport and KellyUSA. The International Airport and Stinson Airport are owned by the City and operated by the City's Aviation Department. KellyUSA completed its transition from an Air Force Base in 2001. These airport facilities provide San Antonio with a variety of properties, facilities and assets that comprise the nucleus for a viable and expanding aviation industry. The City has, therefore, identified aerospace as a targeted driver industry in its 2001 Strategic Plan for Enhanced Economic Development. To support the workforce requirements for growing and sustaining a viable aerospace industry, the community partnered to establish the Alamo Area Aerospace Academy, which opened in September 2001. Complementing this workforce initiative is the Advanced Technology Center scheduled for opening in April 2002. The City, in partnership with the Alamo Community College District, has funded this $3 million project.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Aviation Industry Development (Continued)
The City is also in the process of implementing the November 2000 Aviation Strategic Plan. The Plan identifies economic development opportunities at KellyUSA, San Antonio International Airport and Stinson Municipal Airport, specifically in the four business areas of: (1) air cargo; (2) aircraft maintenance, repair and overhaul (MRO); (3) general aviation; and (4) air passenger service. An air cargo study is underway to identify business opportunities at KellyUSA and San Antonio International Airport. This study will conclude in early 2002 with the delivery of strategic marketing plans for each facility. Aviation is also one of the four industry cluster groups identified in the San Antonio Technology Accelerator Initiative (SATAI). The SATAI Aviation Committee is also looking at initiatives that can create more growth and jobs in the aerospace industry, such as the establishment of a Center of Excellence for the maintenance, repair and overhaul of aging aircraft at KellyUSA.

International Consortium for the Environment (ICE)
ICE is a consortium of universities facilitated by Brooks Air Force Base (AFB) to address international environmental issues and public health concerns with an initial focus on the border region of the United States and Mexico through interdisciplinary research, teaching, and public service. Local ICE membership includes: Brooks Air Force Base, UTHSC, UTHSC Dental School, UTSA, Palo Alto College, University of the Incarnate Word, and the City's Metropolitan Health District. ICE augments the Air Force Institute of Environment, Safety and Occupational Health Risk Analysis (AFIERA) efforts to enhance mission effectiveness, protect health, improve readiness, and reduce costs through the assessment and management of risks to human health and safety, operational performance and the environment. Several AFIERA product divisions have established collaborations with ICE members. These product divisions will focus on threats to human health and safety due to occupational hazards. They provide expert field evaluations and consultations to Air Staff, MAJCOM, and Air Force bases worldwide in order to prevent or identify, evaluate, and control chemical, physical and biological occupational health hazards, reduce costs, and improve mission accomplishment and readiness.

New Business Prospects
The San Antonio Economic Development Foundation, Inc., reported in the fiscal year 2001 Summary and Fourth Quarter Report that the City had 87 active business prospects. These new businesses are categorized as business services and insurance, fabricated metal products, industrial machinery, electronics, rubber and plastics, nondurable distribution, transportation equipment, miscellaneous manufacturing, measuring instruments and others.

Downtown Development Projects
At the end of fiscal year 2001, there were several downtown development projects being proposed. These included public and private projects, which were in various stages of development. The centerpiece of downtown revitalization is the Houston Street Redevelopment Project. This effort is spearheaded by Street Retail San Antonio, L.P., which acquired 14 buildings on E. Houston Street between the San Antonio River Walk and Presa Street. The developer is expected to invest more than $100 million to create a retail and entertainment district in the heart of downtown. Public improvements include, among other things, river walk, street, sidewalk, landscaping and pedestrian way improvements. Private improvements include renovations to eight buildings located on Houston Street as well as soliciting new entities to be built in this area. The Historic Civic Center project as it related to the Houston Street TIRZ Project Number Nine was completed this fall The planned private developments include specialty retail outlets, restaurants, office space, housing units, clubs and other venues. In addition to the aforementioned improvements, the City is constructing a 704 space multi-level parking garage in the area of Travis and St. Mary's streets, which will be open to the public and is expected to alleviate day time corporate parking demand and increase parking for the hotels, restaurants, and night attractions.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

International Trade
The Directory of San Antonio Exporters and Support Organizations (published by the City's International Affairs Department) has identified over 750 local companies that export to other nations or provide export assistance.

During fiscal year 2001, the International Affairs Department worked with 104 international delegations that included 617 delegates that visited the City. Delegations visited San Antonio from Germany, Israel, Mexico, Japan, Canada, Tibet, Argentina, Spain, Canary Islands, Ireland, Cyprus, India, Russia, Czech Republic, Great Britain, Nepal, Bolivia, South Africa, and Kenya. The value of exports has increased from $563.9 million in 1993 to $2,033.7 million in 1999, the most recent year for which such information is available. Another component of the City's international trade is the activity of the North American Development Bank ("NADBank"), which is located in San Antonio. The International Affairs Department's Annual Report for fiscal year 2001 cites NADBank activity since its establishment as having authorized loans, guaranties and/or border environment infrastructure fund grants totaling approximately $340 million to partially finance 37 infrastructure projects. These projects will represent a total investment of approximately $995 million benefiting an estimated 5.5 million residents in the United States and Mexico.

By the end of fiscal year 2001, NADBank signed a loan and/or Border Environment Infrastructure Fund (BEIF) agreement for 8 of the 34 projects with approved financing totaling $15 million and 16 BEIF grants totaling $325 million. In addition, approximately $86 million in NADBank loans and/or BEIF grants funds have been disbursed for 20 of these projects. The NADBank is currently involved in 13 institutional strengthening projects assisting 63 communities; 34 projects have been completed and delivered to the utilities and 59 projects are in progress.

Infrastructure Development

The City recognizes its obligation to address infrastructure needs and to provide the services required to maintain and continuously improve the living standards of its citizens. Infrastructure, the basic framework or underlying foundation provided by government to support a community's basic needs, including its various components that ensure economic activity, safety, education, and quality of life, are discussed below.

Basic Infrastructure Components

Street/Highway System
San Antonio is located at the crossroads of two important Freeways – IH-10 (running east-west) and IH-35 (running north-south) – and is located mid-way between the East and West coasts. San Antonio's roadway system, consisting of approximately 3,968 roadway miles, facilitates the movement of commerce within and through the City. Freeway arteries that intersect the downtown business district include IH-10, IH-35, IH-37, US-90, and US-281. There are three freeway loops including a downtown loop, IH 410, and Loop 1604. Recently completed or ongoing improvements include the expansion of IH-10 between IH 410 and Loop 1604, the widening of segments of Loop 1604, the construction of new interchanges on IH 410 and IH-10, and a new transportation corridor, the Wurzbach Parkway. The Texas Department of Transportation's TransGuide or "smart highway" project went on-line in San Antonio in July 1995, with ongoing additional expansions and equipment updates. This traffic management system utilizes high-speed computer technology to inform drivers about traffic conditions ahead, thereby enhancing safety, reducing congestion, and providing for more efficient traffic flow. Additionally, the Texas Department of Transportation is currently planning the construction of a four-level IH 410/US-281 interchange.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety
Fiscal year 2001 was the fifth year of the Vision 2001 Plan, a comprehensive five-year strategic plan augmented by the Management Accountability Program provides the guidance for advancement in public safety. This plan is goal oriented and focuses on enhanced enforcement programs, training, support services, human resource management, and equipment and technological initiatives whose focus is improved service delivery.

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system, which is currently under design and scheduled to become operational in 2002.

The 1999 Bond Program earmarked $17.4 million for three Vision 2001 technology systems: Field Entry Reporting, Optical Disk Storage and Retrieval, and Supplementary Report Management System. This "Public Safety Integrated Technology System" will provide a comprehensive information management system to increase police officer and detective effectiveness while enhancing customer service. The system will enable officers to enter reports from the field, as well as improve the filing, preparation and storage of important case information. Through the Information Services Department, the Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In fiscal year 2001, $3,040,272 was budgeted for this project.

General Obligation Bonds – 1999 totaling $3,009,000 were allocated to Police Substation Expansion Projects for West, South, North, and Northwest Substations. In fiscal year 2001, $565,420 was budgeted for the expansion projects. The Police Substation Expansion Projects continue as scheduled; expansion of five police substations is necessary due to annexation, population growth, and crime trends in order to improve the ability to provide neighborhood policing and improved service delivery. Construction of the West, South, and North Substations will begin in February 2002.

In June 2001, the Department presented the 2001 Police Rolling Staffing Plan to City Council. The 2001 Plan was presented in the context of potential rising property and violent crime rates along with projections of unusual numbers of police officer retirements leaving potential gaps in police staffing. This potential increase in crime is due to recidivism as a result of early prison releases. The Plan proposes the redeployment of 61 existing police officer positions, the addition of 265 new sworn police positions, and the addition of 20 civilian support positions over the next five years, from fiscal year 2002 through 2006, at a total cost of $45 million. With the implementation of the 2001 Plan, the new Patrol Availability Factor goal for fiscal year 2002 will be 44.89% along with the continuation of dedicated directed patrols. Additionally, in 2001, the Police Department continued to provide and improve citizens' convenient access to information and investigative services at the Police Substations and through enhanced data availability on the Department Website.

The City continues to promote and provide for its Public Safety infrastructure by allocating funding through the budget process for police, fire and Emergency Medical Service (EMS). As of September 30, 2001, Public Safety Infrastructure included 6 police stations, 48 fire stations, which house 47 engine companies, 18 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 25 full-time EMS units and up to 10 peak period units.

With regard to Fire and EMS services, fiscal year 2001 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance services provided such as fire suppression, fire prevention, and emergency medical services. Improvements implemented

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)
included the addition of 1 first responder van, bringing the total to 15, which is part of an initiative by the Fire Department to increase the useful life of the more expensive firefighting apparatus; the addition of one full-time EMS unit bringing the total number of EMS units to 25. Technology and equipment enhancement related Mobile Data Terminals (MDTs) and the equipping of 2 trucks with medium rescue equipment bringing the citywide total to 5.

Parks and Recreation Department
As of September 30, 2001, the City's Parks and Recreation infrastructure included over 179 neighborhood, community and large urban parks, numerous sports complexes, 26 recreation centers, 23 swimming pools, and other special facilities, such as the River Walk, Botanical Gardens, Tower of the Americas, Spanish Governor's Palace, Market Square and La Villita. The total park area covers 11,209 acres. During fiscal year 2001, approximately 29 Parks and Recreation capital improvement projects were completed at a construction cost of over $7.4 million, and an additional 95 Parks and Recreation capital improvement projects were under construction, bidding, or design at the end of the fiscal year.

On May 6, 2000, San Antonio voters approved the collection of an additional 1/8 cent sales and use tax aggregating up to $65 million to purchase and develop as appropriate; (a) large tracts of parkland containing sensitive natural areas over the Edwards Aquifer ($5 million), and (b) linear tracts of land for greenway development along Leon Creek and Salado Creek ($20 million), as well as a 10% operations and maintenance endowment for the Edwards Aquifer Parkland. The parks proposal was the only one of four ballot issues presented to voters on May 6, 2000 that was approved, and will be funded through a temporary 1/8 cent increase in San Antonio's sales and use tax. It is anticipated that the $65 million will be remitted to the City by July 2004.

Planning Department
The City adopted a new Unified Development Code (UDC) in fiscal year 2000-2001, which incorporated many new development regulations and established new criteria for development review by the City. A one time budget appropriation of $65,000 was made for the implementation and training for the UDC. The purpose of this was to retain the current UDC consultant for 12 months to assist in the training of city staff to monitor the UDC implementation process and to educate community groups on the new concepts, rules and procedures stemming from the revision of the UDC. The UDC was adopted by City Council on May 3, 2001, and is currently in the second phase of implementation. The third and final phase of implementation will occur February 3, 2002, bringing the project to completion.

During fiscal year 2001, the Planning Department also completed conversion of the City's Zoning Data from a Computer Aided Drafting (CAD) format to a Geographic Information System (GIS) format. This GIS format assisted in the implementation of the City's Information Technology Plan 2001 - 2003. This conversion has also made possible the creation of a City Intranet Zoning Website, which allows all city employees to access the current zoning via the COSA Web. The GIS has been programmed with UDC zoning attributes which will allow a seamless transition to occur in February 2002 resulting in the elimination of the 1938 and 1965 zoning districts without experiencing delays.

The Neighborhood Improvement Challenge Program (Challenge Program) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2001, the Challenge Program awarded a total of $81,984 to 74 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, and promotion and distribution. Additionally, the Neighborhood and Urban Design Division, as part of the Community Building

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
and Neighborhood Planning Program, coordinated with Texas Department of Transportation to submit two competitive applications for Hazard Elimination Safety Funds. A total of $475,000 was awarded to our San Antonio area TxDOT district office for medians on Austin Highway to implement a strategy in the North East Inner Loop Neighborhoods Plan.

In order to provide high quality customer service, the Planning Department formulated a development application tracking system that can be accessed through the Internet. The system allows engineers, architects, builders and others to track the progress of applications as they are reviewed by the Planning Department. These applications include Master Development Plans, Planned Unit Development Plans, Vested Rights Permits, Manufactured Home Park Plans, Pedestrian Plan, Master Planned Community District Plans, Infill Development Zone Plans and plats. The database system is updated on a weekly basis and at the touch of a button is able to provide customers with up to the minute results.

Library Facilities
The San Antonio Public Library System consists of a Central Library facility, 18 branches, 1 joint-use facility at the Ronald Reagan High School (a unique partnership between the City and Northeast Independent School District), and 2 bookmobiles. The Central Library and 9 of the 18 library branches offer services seven days and three evenings a week. The Ronald Reagan High School/Public Library is open after school hours and evenings four days a week, Saturday and Sunday during the day. The remaining nine library branches are open six days and four evenings a week. The addition of Thursday evening hours at these locations provided increased library access and usage for families, students and neighborhood residents.

The Library system added Computer Centers (Gates Foundation grant) in 10 branches expanding the amount of citizen access to public use computers by 250%. The computer center workstations are loaded with word processing, spreadsheet and database software as well as Internet access. All 14 Gates Center locations received a full-time Department Systems Aide to assist customers with computer center training and use. This initiative reflects the important role played by the Library system in supporting enhanced educational opportunities and computer job skills training for city residents. Every branch library received a Kid's Connect workstation loaded with multiple CD-ROM programs designed for literacy development for young children. These workstations are popular and provide opportunities for parent/child interaction.

Over 3.2 million people utilized the Library's collection of print and non-print resources in fiscal year 2001. Citizens borrowed 6% more materials and asked 29% more reference questions than in the prior year. Usage of the Library's website, including access to full-text electronic information databases increased 124% over the previous year. A total of 156,369 citizens attended library programs designed for a variety of audiences including children, families and adults.

Airport System
The City's airport system consists of the San Antonio International Airport and the Stinson Municipal Airports, both of which are owned by the City and operated by its Department of Aviation.

San Antonio International Airport is located on approximately 2,600 acres of land that is adjacent to Loop 410 freeway and U.S. Highway 281, and is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and is able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 28 second level gates. Presently, domestic air carriers providing service to San Antonio are American, America West, Atlantic

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
Southeast, Continental, Delta, Midwest Express, Northwest, Southwest, Sun Country, and United. Mexicana, Aerolitoral and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 28 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies, which lease facilities at the San Antonio International Airport and Stinson Municipal Airport.

San Antonio International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics recently constructed its own facility. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth and additional facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2000 totaled 130,199 tons.

The Airport System which consists of the San Antonio International Airport and the Stinson Municipal Airport operates and maintains approximately 6,100 parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicates that projected peak period demand for airport parking will exceed the available supply by the end of 2002. It is estimated that 2,400 additional parking spaces will be required in 2004 to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The construction of new parking facilities is expected to start in 2002 and the costs are included in the Capital Improvement Program.

In 1999, the Aviation Department completed a Re-engineering Study of its Airports' operations. The study focused on cost efficiency and customer service improvements as well as revenue enhancements. The goal is to achieve a "balance" approach that would weigh costs against level of services that the Department provides to the public. In addition, the Re-engineering Study included recommendations on performance targets to be achieved over a three-year period, as well as an on-going evaluation process to monitor the status of the changes. In addition to the 12 full-time and 36 part-time positions, which were eliminated following the completion of the recent parking improvements, the recommendations involved a net reduction of 26 positions.

In total, it is estimated that by the end of fiscal year 2002, the Re-engineering recommendations will result in an annual operating cost savings of $1.2 million and additional operating revenues of $1.9 million. The combination of the two will produce an annual increase of approximately $3.1 million to the Airport Operating Fund. Contractually, approximately half of this sum will be utilized in reducing the cost of facilities and services to the airlines, while the remaining funds will be available for new capital facility improvements at International and Stinson Airports. In fiscal years 2000 and 2001, airline costs per enplaned passenger was $3.09 and $3.53, respectively.

As an adjunct to the Re-engineering improvements, a comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which is estimated to cost $27.5 million, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
products at street prices. Concession space will be expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets will be at airside locations.

The City is planning the implementation of a ten year Capital Improvement Program (CIP) pursuant to the Airport Master Plan for San Antonio International Airport. The CIP addresses both terminal and airfield improvements. The capital program includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements and the extension and improvement to two runways along with supporting taxiways and aircraft apron. The Airport System's overall CIP for fiscal years 2002 through 2011, which may change as circumstances permit, is estimated to be $425.6 million. The CIP includes capital improvements as follows: $124.2 million for terminal related improvements, $51.8 million for parking improvements, $19 million for roadway improvements, $177.1 million for airfield improvements, $8.2 million for cargo facilities, $6.7 million for aircraft apron, $5.9 million for Stinson Airport improvements, and $32.7 million for other improvements. The City plans to pursue a phased approach in the construction of the improvements, whereby capacity is increased to coincide with demand. The City also desires to limit to the extent possible the impact on airline rates and charges. Currently under development is a long-term financing plan for the improvements. The City, as the owner and operator of the Airport, has received authority to "impose and use" Passenger Facility Charges (PFC) at the $3.00 level, which became effective November 1, 2001. The FAA issued a Record of Decision approving the City's PFC application on August 29, 2001. The CIP also anticipates the approval of a Letter of Intent with the FAA for the commitment of future grants as possible funding sources for some of the planned capital improvements.

Stinson Municipal Airport, established in 1915 and named for the Stinson family, aviation pioneers, is one of the country's first municipally owned airports. An Airport Master Plan for Stinson was initiated in March, 2000 with City Council's review, and approval anticipated in the Spring of 2002. The Planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to San Antonio International Airport.

City Public Service
City Public Service (CPS), owned by the City, provides electric and gas services to San Antonio and surrounding areas. CPS generates power for its customers through two coal fired and five natural gas fired plants and owns 28% of the South Texas Project nuclear plant on the Gulf Coast. During fiscal year 2001, CPS obtained its generation from the following sources: Coal 47%; Nuclear 28.6%; and Natural Gas 24.4%. CPS also delivers natural gas to customers through its 4,368 miles of 2 to 16 inch steel mains and 1 ¼ to 6 inch high-density polyethylene (plastic) mains. As of year-end, CPS was serving approximately 578,300 electric customers and 305,800 natural gas customers.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked third lowest among the 20 largest cities in the United States for the twelve months ending January 31, 2001. CPS remitted $182.4 million to the City of fiscal year 2001. With increased natural gas prices and usage during the past winter, the City provided approximately $8.6 million in rebates to San Antonio ratepayers to provide utility relief. Additionally, the City allocated approximately $678 thousand to the Project WARM to supplement the efforts of this project to provide utility relief to economically disadvantaged residents. These additional resources became available as a result of the increased payment from CPS to the City because of the aforementioned conditions.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

San Antonio Water System
The City's waterworks system, initially acquired in 1925, was included in a consolidation on May 19, 1992, of all City owned water related utilities including water, wastewater, and water reuse systems. This consolidation created the San Antonio Water System (SAWS), which now provides water and wastewater service to San Antonio and certain surrounding areas. As of May 31, 2001, SAWS provides service to approximately 294,826 water customers and approximately 345,614 wastewater customers. SAWS has 4,072 miles of water mains in place and 4,845 miles of wastewater mains in place.

In October 2000, City Council approved the establishment of a Water Supply Fee to fund the development of additional water resources and accepted a five year multi-year financing plan. The fee must be utilized for water supply activities and was implemented in January 2001 at a rate of $.0358 per 100 gallons of usage. In accordance with the multi-year financing plan, the water supply fee was increased by $.0350 in January 2002 bringing it to a total of $0.0708 per 100 gallons of usage.

Housing and Neighborhood Development
The City's administration of housing and infrastructure development initiatives are being accomplished through initiatives such as the Housing Master Plan, Neighborhood Sweeps, Neighborhood Commercial Revitalization, Down Payment Assistance, Owner Occupied Rehabilitation and Reconstruction, Rental Rehabilitation, Affordable Parade of Homes, Tax Increment Financing, and the Housing Asset Recovery Program managed through the Neighborhood Action Department. In continuation of the Mayor and City Council's community revitalization efforts, the Department is developing public policies to support inner city revitalization in distressed areas.

In support of the Mayor and City Council's community revitalization efforts, the Neighborhood Action Department has defined a strategy for data gathering efforts to aid in the development of a comprehensive investment plan for the Community Revitalization Action Group (CRAG) target area, original 1940 city limit boundaries. In addition, the Mayor will be hosting a series of lectures led by the Urban Land Institute to be held in coordination with the Livable Cities Conference in Spring 2002.

Housing Asset Recovery Program
In an innovative approach to revitalization, the Neighborhood Action Department partnered with the Fannie Mae San Antonio Partnership Office utilizing a line of credit to rehabilitate valuable housing stock and thus create affordable housing opportunities for low to moderate-income families in San Antonio. The Housing Asset Recovery Program (HARP) takes a non-productive, residential structure and creates a useful asset for the community. Individuals, non-profit organizations, corporations, or any owner of a single-family home, residential lot, or tract of land can donate or sell the asset to the City. Beyond the flood recovery program, in most instances, the home can remain on the existing lot and is rehabilitated on site. In other cases, such as in school expansion projects, a home may need to be relocated to another city-owned parcel of land. To finalize the HARP transaction, the City refers the "project" to Fannie Mae for rehabilitation and sale. Once the home has been renovated, a licensed real estate broker lists and sells the property on behalf of the City. Net proceeds from the sale of the home are returned to the City for reinvestment in affordable housing.

In fiscal year 2001, the Neighborhood Action Department received a number of properties for this program through other governmental entities and non-profit organizations. The HARP concept evolved as a result of one of San Antonio's greatest natural disasters, the Flood of October 1998. The City formulated a program to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing Asset Recovery Program (Continued)
purchase the homes of families who resided in a 100-year flood plain. The properties had sustained very little water damage and were ideal for recovery. The Department works with Public Works, Asset Management, and other departments to recover these properties and offer homeownership opportunities that ultimately placed these homes back on the tax rolls.

Housing Master Plan
In June 2001, the City was presented with a Housing Master Plan completed by J-QUAD & Associates, LTD, SA Research Corporation, and McConnell, Jones, Lanier and Murphy, LLP. The Master Plan is a result of recommendations found in the Community Revitalization Action Group Report and the Housing Performance Review. Both documents indicated a need for an overall plan to guide housing development in the City.

The Master Plan identifies and provides a series of recommendations for housing initiatives, processes and comprehensive development for the City. The Master Plan also provides a baseline and understanding of current conditions found in San Antonio's housing market as well as presents a definition of continuum of care and affordable housing. The Master Plan also makes a series of recommendations concerning the retooling of programs and processes to enable implementation of the recommendations defined in the plan. These recommendations are currently under review by the City Council Housing and Neighborhoods Council Committee.

Neighborhood Sweep Program
The Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2001. Over the last 4 years, 86 communities have been recipients of this comprehensive service delivery program. The neighborhood sweeps represent an inclusive package of city services, such as code investigations, brush collection, street/pothole repair, graffiti and vacant lot abatement, that are delivered to a 55–60 block area over a period of two weeks. The program is designed to accomplish both short-term "clean-up" goals and long-term community development goals including accessing safe, decent housing and assisting special need populations.

Neighborhood Commercial Revitalization
The Neighborhood Commercial Revitalization (NCR) Program was created to bring renewed interest and investment to San Antonio's older commercial corridors. The NCR Program is currently working in eight target areas throughout the City's urban core. The NCR Program provides financial and technical assistance to community based non-profit organizations that undertake a full-time revitalization effort. The NCR Program is based on identifying and marketing the competitive advantages of these business districts in the hope of attracting private investment in new and existing businesses, thus creating job opportunities and enhancing the quality of life in the surrounding neighborhoods.

Collectively, NCR target areas have realized $3,044,650 in private investments and 188 new jobs. During fiscal year 2001, the Program's third year of operations, a comprehensive review was conducted. Changes to the funding and selection components were adopted by City Council on September 13, 2001. These changes will position the NCR Program to achieve greater success and productivity in fiscal year 2002 as the participants continue to implement strategies that will support inner-city revitalization.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Down Payment Assistance Programs
In February 2001, the Neighborhood Action Department acquired the down payment assistance program and homebuyer counseling services previously administered by the San Antonio Development Agency. The Department will continue to provide up to $8,000 in down payment and closing cost assistance for families wishing to purchase single family homes in the San Antonio area. Working in partnership with various lenders, realtors, builders, and non-profit agencies to reinforce the specifics of the program, Neighborhood Action has been able to expedite the processing of each file by ensuring complete and thorough information. During fiscal year 2001, more than 145 families received down payment assistance through this program.

Owner Occupied Rehabilitation & Reconstruction Programs
The City also acquired these programs from the San Antonio Development Agency in 2001. The Neighborhood Action Department administers the Owner-Occupied Rehabilitation and Reconstruction Program that provides loans and grant funds for renovation or reconstruction of housing units for qualifying families. This Program is also funded through the US Department of Housing and Urban Development providing Community Development Block Grant and HOME funds. The Department works closely with the families to determine rehabilitation and/or reconstruction needs based on assessments of the housing structure. The Department is responsible for providing oversight and monitoring of construction activities for the projects.

Rental Rehabilitation Program
The Neighborhood Action Department's Rental Rehabilitation Program provides funds for both single-family and multi-family rental units. It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation; however, there are numerous challenges associated with ensuring revitalization such as historic integrity, environmental hazard, deferred maintenance and elderly property owners.

The Rental Rehabilitation Program has a loan product specifically targeted for single-family dwellings. Property owners can borrow up to 100% of the rehabilitation costs; 50% is paid to the City at 5% interest; 50% is forgiven during the Period of Affordability provided the owner complies with the program guidelines.

Tax Increment Financing
In order to stimulate major new construction and rehabilitation throughout the City, the Neighborhood Action Department diligently utilized the Tax Increment Financing (TIF) program. This program provides a means of presenting incentives that carry real costs by paying public improvement costs from the increased tax revenues generated by the project itself. The public purposes of TIF projects include the redevelopment of blighted areas, construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base.

The Department was instrumental in the adoption of new TIF Guidelines in fiscal year 2000. Since 1998, the City has created seven residential Tax Increment Revitalization Zones (TIRZ) administered through the Neighborhood Action Department with one residential TIRZ being dissolved and two commercial TIRZs administered through the Economic Development Department. During fiscal year 2002, the City projects the creation of five new residential TIF projects, evident from pending applications being processed. As of September 30, 2001, a total of 477 housing units have been constructed throughout the residential TIF projects.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Community Initiatives Department
The Department of Community Initiatives (DCI) serves as the primary human development agency for the City. In this role, DCI coordinates community-based human investment strategies designed to raise the education and skill level of the City's workforce. In this capacity, the Department acts as a vehicle for collaboration between public and private organizations. This focused facilitation strives to leverage and maximize resources toward significantly improving the community's human development outcomes. In fiscal year 2002, DCI will invest almost $130 million in human development. The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through the development of human capital.

DCI plays a major role in the City's Better Jobs Initiative, which supports human development efforts at all stages of life, beginning with early childhood development and continuing through adult education. DCI carries out these human development strategies primarily through family strengthening, early childhood education, kindergarten readiness, youth development, college scholarships, long-term job training and adult literacy services.

The goal of the Department's early childhood education and kindergarten readiness efforts is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to learn. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 17,000 low-income children of parents participating in workforce activities. To help accomplish this goal, the City provides $10.4 million in In-Kind contributions to the Head Start program. This In-Kind contribution consists of rent-free space for day care sites with grant and volunteer service hours provided by parents, nurses, and doctors. The nurses and doctors volunteer services are provided through the San Antonio Metropolitan Health District.

The Better Jobs Kindergarten Readiness Project prepares children for elementary school by developing their mastery of problem solving, communications and life skills. Kindergarten Readiness operates fully in 17 elementary school neighborhoods. To increase public awareness about the issue of school readiness and parental involvement, DCI initiated Early On, a multi-media campaign to disseminate the Kinder Readiness guidelines. Last year, the Kinder Readiness Project engaged over 2,500 parents and 200 teachers in the use of the guidelines. According to a University of Texas at San Antonio (UTSA) research study on the project, 86% of children assessed displayed mastery of the guidelines. The project distributed more than 46,000 brochures through public and private partnerships.

The San Antonio Education Partnership (SAEP) encourages students to stay in school and advance to higher education by providing advising services, college preparation activities and scholarships to students who graduate with a 95% attendance rate and 80% grade point average. Annually, the SAEP serves over 15,000 9th - 12th grade students at the 15 participating high schools. Since the program's inception, over 1,000 scholarship recipients have received their Bachelor's degrees from local colleges and universities.

Funded primarily through the City, Project QUEST serves as an employer and industry driven long-term job training program. It provides certificate and two-year degree graduates for the demand occupations linked to San Antonio's driver industries. The program serves undereducated adults who have completed high school or a GED certificate. Project QUEST offers a continuum of basic and occupational skills training, job placement and job retention services. In addition, Project QUEST works closely with the aviation and healthcare industries to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Community Initiatives Department (Continued)
provide customized training programs, which addresses the critical job training needs of these driver industries. In fiscal year 2001, 60 participants completed customized aerospace training programs. Since the program's inception in 1993, over 1,500 participants have completed training and have been placed in jobs at an average wage of $9.57.

The Department's Literacy Services Division offers adult education services including GED preparation, adult basic education, English as a Second Language (ESL), and computer literacy. In addition, the Department has implemented the Better Careers and Literacy for Life programs in partnership with local employers to improve the workplace skills of adult learners who have a limited work history through life skills training classes, intensive job counseling, motivational sessions, financial literacy and job placement. Over the past 18 months, over 300 adult learners have completed these programs and been placed in jobs. Through a grant from the Texas Workforce Commission, the Better Careers program will expand and serve 300 adult learners in fiscal year 2002.

Strategic partnerships, which demonstrate a high level of impact and public accountability, will continue to be the key to successfully raising the community's education and skill levels, a prerequisite to making Better Jobs a reality for all San Antonians. Over the last year, the Department continued to strengthen existing partnerships and form new strategic alliances. For example, the Kindergarten Readiness Project operates in collaboration with Bexar County school districts, childcare centers, UTSA, and community based organizations including Family Services Association, KLRN, AVANCE and YMCA. The Department's other essential partners include but are not limited to the United Way, Annie E. Casey Foundation, Alamo Workforce Development, Inc., (AWD), Smart Start, Tourism Council, employers and congregations.

As a single entity operating alone, the City cannot achieve a higher standard of living and long-term economic vitality. In fiscal year 2002, the Department will continue to facilitate the coordination of community assets to empower citizens, foster partnerships and provide effective and efficient services to promote self-sufficiency and ensure the best possible results for families and children in San Antonio.

Information Services Department: (ISD)
The Security Initiative's goal is to protect the City's critical missions by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. To achieve this goal, in June 2001, ISD established its new Security Office and hired a Security Manager. The Security Initiatives focus is to institute and manage new security policies, guidelines and operating procedures for all City systems and infrastructure. It will monitor, maintain, revise and disseminate current security policies, procedures and administrative directives to ensure they are current and will enforce security policies to insure the City's systems and data are secure from unauthorized access, protected from inappropriate alteration, physically secure and available to authorized users in a timely manner. The Security Manager will plan, and schedule vulnerability assessments to properly analyze the risk to City systems and data integrity.

The E-San Antonio project provides Internet access in order to enhance the City's effectiveness and efficiency in serving its employees, citizens, businesses and visitors. During 2001 a new easier-to-use and easier-to-remember address for the City's website was implemented – sanantonio.gov – and a new community web portal was introduced. San Antonio stakeholders will have one-stop access to government services, including e-commerce, regardless of which political entity provides the service.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Services Department: (ISD) (Continued)
The Alamo Area Community Information System Initiative (AACIS), an ongoing partnership of non-profit, educational and government agencies, is dedicated to improving the quality of life in San Antonio by making internet access and social service delivery more accessible, particularly to the underserved in our community. In support of AACIS, the City's Information Services Department is now hosting a community hub, a device consisting of integrated telecommunication components which will efficiently link local networks, maintained by separate Greater-San Antonio organizations, into a single internet-based metropolitan area network (MAN).

Information Technology (IT) is the employment of computer hardware, software, networks and telecommunications to process and distribute information in digital, audio, video and various other forms. The City has developed an Information Technology Plan to provide a coordinated IT planning effort across all departments of the City and to effectively manage the City's technology investments in concert with its strategic business processes. This long-range plan projects future IT needs and makes critical decisions about IT through fiscal year 2004. The City uses IT to be more cost efficient, deliver better and more comprehensive services, and provide easy access to information to its employees, citizens, businesses and visitors. Demands for the ability to conduct business electronically, allow for faster response time, increase participation and involvement in government, along with economic pressures to do more with less, are major factors that affect the use of technology at the City. This plan is intended to be dynamic and is updated annually to reflect changes in technology, trends, and the organization.

The Information Technology Vision of the City is to provide business solutions that will enhance the City's effectiveness in serving its employees, citizens, businesses and visitors through the successful use of IT. Information Technology will be used to lead the City into the 21st century and to achieve citywide goals. This plan is built on a vision of IT in which employees, citizens, businesses, and visitors have access to appropriate technologies and experience quality service without the constraint of boundaries such as time or location. It promotes a technological environment that provides electronic access, retrieval and use of city information and services for employees, citizens, businesses and visitors anytime and anywhere.

The Information Technology Plan forges a logical link between business strategies and the information delivery system supporting the strategies. The City's Information Technology Plan is a roadmap for defining where the City's IT environment is headed and how it will get there. The plan reflects an underlying philosophy that substantive, long-term efficient and effective improvements for the City cannot be obtained without an integrated assessment of business processes, people and technology. Technology is an enabler that must support the business needs and direction of the City.

The City realized there was a need to stabilize the desktop computing environment and the multiple operating system platforms. It was ascertained that the most expeditious and cost effective approach would be to enter a seat management lease program whereby within 3 years all City users would be on a uniform operating platform with the most current equipment. This initiative, coupled with the City's Enterprise License Agreement (ELA) with Microsoft, will enable the City to have the most current operating system and suite of office tools. The lease program is currently being developed and should be in place next fiscal year.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Enterprise Resource Management (ERM) Project
The Enterprise Resource Management Project is an initiative to reengineer business processes and replace existing software systems in order to improve efficiency, accountability, and to provide enhanced services to the customers of the City. Project sponsors include the City Manager, Director of Finance, and Director of Information Services. The City has hired a consulting firm to assist the City with this effort. The ERM Project consists of three phases, of which Phase 1: Strategy and Process was completed in September 2001. Phase 2: Software Solicitation and Selection is scheduled for completion by July 2002, and Phase 3: Software Implementation is expected to be phased in over the upcoming years and completed in 2005.

Contracting Initiatives
In August 2000, the City Council approved the selection of an independent project team led by the consulting firm of DMG-MAXIMUS, Inc. to conduct an independent review of the City's management of business contracts. The comprehensive review was an effort to improve the efficiency and effectiveness of the City's current contracting operations and procedures. As a result of the May 2001 report, which provided various contract process improvement strategies, the City Council approved the creation of a Contracts Services Division in the Department of Asset Management.

The newly created division is focused on creating and promoting City-wide standards and systems for improving the management of contracts through the development and implementation of: 1) standards for contract management, planning, and solicitation; 2) strategies to streamline contract negotiations and approvals; 3) rigorous monitoring practices; and 4) training programs for contract managers. A first phase component of these efforts included the design and creation of the Electronic Contract Management System that serves as the City's central repository for City-wide contracting data. While an ongoing process, many changes and improvements to the City's contracting efforts will be completed by mid-2002.

Code Compliance Department
The Code Compliance Department seeks to enhance neighborhoods and their citizens' health, safety and general welfare through efficient and effective City Code enforcement. This Department also strives to promote a higher quality of life by promoting awareness and compliance with City Codes to stabilize and reverse deterioration of neighborhoods.

The Department's fiscal year 2001 staff complement for code enforcement includes 55 Code Enforcement Officers, 8 Dangerous Premises Officers, and 5 Abatement Officers. Each Code Officer patrols the City in marked vehicles equipped with a computer laptop providing effective and efficient code enforcement activities. Monitoring vacant lots is an example of one activity that falls under this Department's jurisdiction of enforcement for improving the quality of life for the citizens of San Antonio.

Public safety is one of the City's major concerns in its enforcement of overgrown vacant lots. Abandoned properties, whether vacant lots or structures, present adverse conditions impacting the quality of life in the community. The Department recognizes these issues and is attempting to increase community awareness and voluntary compliance by encouraging and developing partnerships with neighborhood organizations, community groups, and local businesses to ensure a safer, cleaner and more beautiful San Antonio.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Code Compliance Department (Continued)
If private property lots are not cleaned by their owners, the City hires a private contractor. Contracting with small businesses to perform the cleanups helps stimulate the local economy, in addition to accomplishing the Department's objectives. The majority of these private contractors are small business operators and/or Historically Underutilized Businesses (HUBs). This business activity is an opportunity that allows small business owners to compete with larger businesses. Last fiscal year, $379,799 was expended on vacant lot clean up through these contracts.

Medicine and Healthcare
The City is cognizant of the importance of, and continues to support, its Medical infrastructure. The City is actively involved in promoting the industry, recognizing its significance to San Antonio and its citizens. Major medical research, manufacturing, training and health care facilities located in San Antonio include the Southwest Biomedical Research Institute, high technology biomedical manufacturing, the University of Texas Health Science Center at San Antonio (medical school, dental school, nursing school, allied health sciences school), the University Health System, Wilford Hall Medical Center (United States Air Force), Brooke Army Medical Center, a world renowned burn treatment and research center, and the South Texas Medical Center. The Medical Center contains numerous hospitals, a specialized treatment center and the renowned Cancer Treatment and Research Center that attracts patients nationally and internationally. In addition, Brooks Air Force Base is a major medical and environmental research facility unique to the U.S. Air Force.

The San Antonio Metropolitan Health District is the local public health agency for the City. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance, health education, dental services, and is the local registrar of vital statistics.

Developmental Services
In April 2001, the Building Inspections Department with the Zoning and Subdivision division of the Planning Department and the Development Engineering Division of the Public Works Department were combined. This new department encompasses most of the development review, permitting and inspections components for the City and is appropriately named the Development Services Department.

This reorganization is especially important in light of the opening of the City's new One Stop Development Services Center slated for early 2003. In May 2001, the San Antonio Municipal Facilities Corporation (an entity created by the San Antonio City Council in February 2001) authorized the execution of a Development Agreement for the design, construction, and purchase of a facility for the One Stop Development Services Center (Center). The purpose of the Center is to provide a convenient, single source of information and assistance to private sector entities that are expanding, developing, or relocating their business.

The new center will be a state-of-the-art facility, which will be centrally located on the south side of the City's Central Business District. The Center, to be located at the northwest corner of Alamo and Flores streets just south of downtown, will be a two story facility, encompassing approximately 75,000 square feet along with over 300 parking spaces and situated on approximately 5.3 acres of land. Located at the Center will be an estimated 230 employees from various City Departments of Development Services, Planning, Health, Fire Inspections/Fire Marshal, and the Economic Development/Small Business Outreach Program, as well as individuals from the water, electric and gas utilities, and related departments of Bexar County that provide services to private sector businesses.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Developmental Services (Continued)
The City adopted a new Unified Development Code (UDC) in fiscal year 2000-2001, which incorporated many new development regulations and established new criteria for development review by the City. Recognizing the increased workload stemming from the new UDC and in the interest of improving the efficiency of the overall development process, the City raised staffing levels among several of the development-related agencies within the City by 36 positions, including 21 for Development Services.

Environmental Services Department
The Environmental Services Department was created this fiscal year by realigning the Environmental Services Division and Solid Waste Division from the Department of Public Works into the new Environmental Services Department. This Department is funded by the Environmental Services Revenue Fund, which receives revenues from the Residential Solid Waste Fee, the Environmental Fee, and the new Brush Collection Fee which is collected by City Public Service.

The Environmental Management Division is responsible for ensuring City property and construction projects are in compliance with all federal, state and local environmental rules and regulations. This Division assesses and investigates the environmental conditions of land, air and groundwater for the City. Other major responsibilities of the Division involve administering the City's Air Quality and Household Hazardous Waste Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation.

The Solid Waste Division is responsible for the collection of refuse generated by over 296,715 homes and businesses within the City. The primary services provided by this Division include biweekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the tri-annual collection of residential brush and bulky items. Other services include out-of-cycle collection requests for brush and bulky items, supporting neighborhood associations and civic groups through the weekend Dial-A-Trailer program, sponsorship of Keep San Antonio Beautiful, an Annual Citywide Clean Up, Neighborhood Sweeps in 20 locations, and quarterly Free Landfill Disposal Days. The Solid Waste Division also provides cleanups for special events, weather related emergencies and high priority needs of other City departments, as resources are available.

Public Works Department
The Public Works Department provides public services and infrastructure in a quality manner through the use of modern engineering and management practices. The department provides design, construction, and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

Significant projects underway during 2001 include the St. Mary's Parking Garage which is currently under construction at the northeast corner of N. St. Mary's and Travis. This six-story parking garage will provide 704 parking spaces and 13,950 square feet of retail space and is anticipated to be completed in January 2002. The Presa Street Linkage project consists of enhancements to the Presa and Crockett Street bridges and sidewalk improvements. A linkage from the River Walk to Houston Street will also be constructed and is scheduled for completion in February 2002. The River Walk Park project, which is scheduled to be completed April 2002, will provide a continuous connection from the north around to the Arneson River Theater and west towards the International Center. Additionally, Americans with Disability Act (ADA) improvements, an elevator, and public restrooms will be constructed.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)
The Capital Programs Division completed 36 street and drainage projects at a cost of $37,565,000. These projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow for greater mobility.

The Streets Maintenance Division was granted approval for the purchase of a road reclaimer that is specifically designed for full-depth street reclamation. The reclaimer also recycles existing asphalt in place instead of having to purchase new asphalt for street maintenance projects. The addition of the reclaimer will allow city street maintenance crews to cut the amount of time it now takes to maintain street surfaces by half. This will improve customer service by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt will also divert waste from the landfill and will save time and money from having to haul off excavated dirt. An additional paver was also approved in the budget which will assist city crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces with skid resistance to improve safety.

Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to $200,000 and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, traffic signals, school flashers, and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

A Customer Service Team pilot program in Streets has been implemented to give assigned personnel the knowledge and ability to expedite 311 Customer Service inquires. This will allow supervisory staff more time for planning, coordinating and monitoring projects for quality assurance and timely completion of projects. The Flood Response and Emergency Response programs have been updated to include department wide participation in responding to emergencies such as flooding, to improve response times and prevent the loss of life or property.

The adoption of the Right of Way (R.O.W.) ordinance by City Council in May 2001 will significantly impact the City's infrastructure by requiring utilities, telecommunications companies and others needing to excavate City streets make repairs to those streets to maintain integrity and life of the streets. Public Works implemented e-commerce processing of R.O.W. permits on-line to improve customer convenience in obtaining street cut permits. The prior system required applicants to drive to the permit office to obtain the permit. This significant improvement makes the process much more convenient for customers.

The record flood of 1998 prompted some major policy changes that have provided a more proactive approach to flood control. One of the major initiatives was to conduct a "buy-out" of properties within the floodplain to prevent the possibility of future catastrophic damage and potential loss of life. This voluntary buy-out continues today. The adoption of the Unified Development Code (UDC) in May 2001 provided a revised Storm Water Management section and further codified the Floodplain Ordinance. The UDC uses a watershed management approach. Storm Water Engineering is reorganizing to form Watershed Teams for the Leon Creek, Salado Creek and San Antonio River watersheds. The new UDC also developed specific conditions under which floodplain development may occur without jeopardizing the City's goals of natural floodplain preservation and flood mitigation.

The Storm Water Operations Division completed a joint venture with the Natural Resource Conservation Service (NRCS) to remove debris from 14 miles of the Leon and Salado Creeks. This was a $1.2 million project with over 500 tons of trash, tires and debris being removed from both creeks. This project improved the quality of life for residents along both creeks by removing obstructions that could contribute to future flooding.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)
An electronic instrumentation and control system was installed on the two flood control tunnels. These tunnels are monitored electronically 24 hours a day, seven days a week. The Foxboro system ensures the control and direction of storm flows into or bypassing the two tunnels. It also monitors the flood level behind the Olmos Basin Dam, which is a critical part of the system that ultimately safeguards the safety of the citizens and commerce in the Downtown Central Business District.

In fiscal year 2001, the building maintenance and repair activities previously reported in the General Fund were reorganized into an internal service fund. The Building Maintenance and Repair Fund will provide for the general maintenance, janitorial, security, utilities and other preventative maintenance services contracts for 21 selected facilities, many of which are located in the downtown area. Additional facilities will be added to the Building Maintenance and Repair Fund once the initial implementation has been completed and evaluated. The City Departments that occupy certain facilities will be assessed annual fees which will support this internal services fund.

The Office of the City Architect, a division within Public Works, completed numerous projects in fiscal year 2001, and has many in progress for completion in fiscal year 2002. The Houston Street improvements, which consisted of new trees being planted, new lighting installed, and other improvements were completed in fiscal year 2001. The Historic Civic Center River link, which provides a River Walk connection to the Civic Center of the City, was also completed in fiscal year 2001. In addition, improvements were made to Fire Stations, No. 16 and No. 46, were also improved upon. A new building was built for Fire Station No. 46, and a new walkway, which links the street to river level, was built for Fire Station No. 16.

Supporting Infrastructure Components

Convention Center Expansion
The Convention Center Expansion and Renovation Project was completed in 2001. This project was financed from the proceeds of Hotel Occupancy Tax Revenue Bonds sold in March of 1996, and debt service payments are paid from the collection of a 2% Hotel Occupancy Tax. This construction represents the first major expansion and improvement of the Henry B. Gonzalez Convention Center since 1987. The Convention Center was originally built in 1968 for the San Antonio Worlds Fair, HemisFair. The Convention Center is located within the downtown area of San Antonio and is within walking distance of numerous hotels, retail shops, restaurants, historic amenities, and the City's River Walk.

The Convention Center Expansion Project, which includes 867,495 square feet of additional space to the Center and renovations, construction and upgrades of the original center, is fully operational, with more than 1.3 million gross square feet. The Convention Center boasts 440,000 square feet of contiguous exhibit space, 113,287 square feet of meeting room space with optimum flexibility of up to 59 room divisions. Three hotel quality ballroom/banquet rooms, with the largest at 40,000 square feet is designed to hold up to 4,000 people. The Center also includes two full service banquet kitchens, two loading docks, a pressroom, VIP lounge, dressing rooms, and 29,000 square feet of designated registration areas. The navigable portion of the river construction and the River Walk continuing into Plaza Mexico in HemisFair Park, were completed during the summer of 2001. Interior finishes throughout the Convention Center, East and West Banks, include artist-designed carpet patterns incorporating elements of San Antonio's history and culture. Also featured is an in-house business center to

ECONOMIC OVERVIEW (Continued)

Supporting Infrastructure Components (Continued)

Convention Center Expansion (Continued)
service many of the Convention Center clients. This service is operated by a nationally recognized leader in business center services and enhances the Center's marketability. The completed Convention Center allows the City to improve its competitive position to attract large, revenue generating conventions, and to expand tourism, while enhancing the viability of the local economy for San Antonio.

Alamodome
The Alamodome is a 65,000 seat multi-purpose sports, entertainment, and convention facility. Since opening in May 1993, it has held more than 900 events and has hosted over thirteen million visitors. The Alamodome has enhanced San Antonio's ability to attract major public sporting and entertainment events.

The Alamodome maintains a strong reputation as a venue capable of hosting major events. As a result, the diversity of events that are brought to San Antonio continues to expand. The NCAA will host the Women's Final Four Basketball Tournament in March 2002, the Men's Southern Regional Basketball Tournament in 2003 and the Men's Final Four Basketball Tournament in 2004. A significant first for the Alamodome occurred in 2001 when it hosted seven performances of the Ringling Brothers & Barnum & Bailey Circus and eight performances of Disney on Ice. Those shows were the first of a five-year run for both performances.

Nelson W. Wolff Municipal Stadium
The Nelson W. Wolff Municipal Baseball Stadium opened in April 1994 and has a seating capacity of 6,500. It has a multi-purpose design which allows for events such as professional baseball, concerts, boxing, and high school, college, and amateur sports. The stadium is home to the San Antonio Missions. In 2000, the Missions became the minor league affiliate of the Seattle Mariners.

Other Amenities
The City supports and promotes various other tourism and quality-of-life amenities, including performing arts and cultural entertainment facilities, museums, the San Antonio Zoo, and the preservation of the Alamo, as well as enterprises such as Sea World of Texas, and Six Flags Fiesta Texas. The City also provides support and funding for cultural organizations, from dance performance companies to the Symphony Society of San Antonio, and for facilities including the Witte Museum, the San Antonio Museum of Art, the Southwest Craft Center, the Carver Community Cultural Center, and the Guadalupe Cultural Arts Center.

In addition, San Antonio is home to various professional sports teams including the San Antonio Iguanas Hockey team, the San Antonio Spurs, and the San Antonio Missions. San Antonio also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

In a new international initiative, the City's International Affairs Department developed an economic development program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In its second year, the program graduated thirteen companies.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America and other regions of the world. This encompasses transportation, manufacturing and logistics facilities, professional services and value-added services involved in producing, marketing and moving freight within, into and out of the San Antonio area. Over the past nine years, the City has operated three commercial trade offices in

ECONOMIC OVERVIEW (Continued)

International Outlook (Continued)

Mexico's three largest cities: Mexico City, Guadalajara, and Monterrey. The trade office in Mexico City has expanded to service seven southeastern Mexican states of Oaxaca, Chiapas, Quintana Roo, Veracruz, Campeche, Tabasco and Yucatan.

The City's commitment to international trade is evidenced in the City's new International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Office, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department, and the Convention & Visitors Bureau.

MAJOR INITIATIVES

The adopted consolidated annual budget for fiscal year 2002 totals $1.377 billion. The budget continues to build up basic services in the community while addressing critical priority initiatives of the City Council as expressed in the 2001 Goals and Objectives Work session, as well as eliminates a projected General Fund shortfall. The General Fund budget did not require an increase in the property tax rate for the ninth consecutive year. The General Fund budget expenditures and transfers total $601.1 million for 2002, representing an increase of 5.58% over the previous year. For the tax roll year 2001 (fiscal year 2002), the total adopted tax rate of $0.57854 decreased 1/8 cent from the prior year's rate. The fiscal year 2002 tax rate is now comprised of $0.35454 per $100 valuation for the maintenance and operations component, and $0.22400 per $100 valuation for the debt service component.

The adopted 2002 budget focused on program improvements to enhance City services. Included are significant General Fund enhancements to City services in high Council Budget Priority areas such as Existing Infrastructure ($2.8 million), Housing & Neighborhood Planning ($1.9 million), Public Safety ($11.34 million), Human Development ($3.4 million), Charter Review/Governance ($1.2 million), Unified Development Code Implementation ($951,574), and Parks and Libraries ($1.76 million). Within the Public Safety Budget Priority, the Adopted Budget includes $1.06 million for continued implementation of the Police Staffing Plan and $2.03 million for the Fire Master Plan. Within the Housing & Neighborhood Planning Budget Priority, a total of $773,987 in improvements is included in order to enhance significantly the City's proactive code enforcement efforts with the addition of 12 new enforcement positions.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. For the fiscal year beginning October 1, 2000, The Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

Activities of the General Fund, the Special Revenue Funds (excluding the Home Program, Categorical Grants-In Aid Fund, Housing and Urban Development 108 Loan Program, Community Development Block Grant Program, which are budgeted on a grant year basis; the San Antonio Industrial Development Authority, and the San Antonio Health Facilities Development Corporation, which are blended component units; and the Community Services Fund, which are not budgeted) and the Debt Service Funds, are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Funds. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to

FINANCIAL INFORMATION

Budgetary Controls (Continued)

accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

Funds and Accounting Overview

GENERAL GOVERNMENT FUNCTIONS

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

The following schedule presents a summary of General Fund, Special Revenue Funds, and Debt Service Funds revenues for the fiscal year ended September 30, 2001, and the amounts and percentages of increases and decreases as compared to the prior year.

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
Taxes	$437,572	41.61%	$36,864	9.20%
Licenses and Permits	12,683	1.21	425	3.47
Intergovernmental	171,573	16.32	6,672	4.05
Revenues from Utilities	187,940	17.88	15,639	9.08
Charges for Services	71,919	6.84	5,399	8.12
Fines and Forfeits	11,116	1.06	(477)	(4.11)
Miscellaneous	39,519	3.76	3,634	10.13
In-Kind Contributions	11,021	1.05	(1,723)	(13.52)
Transfers-In	107,985	10.27	12,831	13.48
Totals	**$1,051,328**	**100.00%**	**$79,264**	

Revenues from taxes increased by $36,864 which was primarily attributable to: (1) a $1,680 or 1.2% increase in sales tax revenue for the General Fund, (2) a $1,959 or 4.4% increase in Hotel Motel tax revenue in the Special Revenue Fund, and (3) a $14,403 or 7.45% increase in Ad Valorem tax collection for the General Fund and Debt Service funds as a result of increased property valuation, new construction, and annexation, and (4) a $17,101 increase in sales tax revenue in the Parks Development & Expansion Fund (Special Revenue) due to a 1/8th cent sales tax increase beginning October 1, 2000 for park development and expansion. Revenues for the utilities

FINANCIAL INFORMATION

Funds and Accounting Overview (Continued)

GENERAL GOVERNMENT FUNCTIONS (Continued)

category which is represented in the City's General Fund increased by $15,639 or 9.1% which is primarily attributed to an increase of $15,272 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by variables such as fuel costs, weather, types of electric generation used, as well as other variables.

The following schedule shows the Primary Governments General Fund, Special Revenue Funds and Debt Service Funds expenditures for the fiscal year ended September 30, 2001, and the amounts and percentages of increases from the prior year.

Expenditures and Other Uses	Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
General Government	$ 69,276	6.74%	$ 13,477	24.15%
Public Safety	339,812	33.04	19,300	6.02
Street and Roadways	59,233	5.76	(3,179)	(5.09)
Health Services	71,901	6.99	8,091	12.68
Environmental Protection and Control	106	.01	(29)	(21.48)
Sanitation	2,754	.27	153	5.88
Welfare	121,641	11.83	20,003	19.68
Culture and Recreation	65,357	6.36	5,714	9.58
Convention and Tourism	42,316	4.12	3,604	9.31
Conservation	42	0.00	33	366.67
Urban Redevelopment and Housing	16,147	1.57	(2,286)	(12.40)
Economic Development and Opportunity	23,141	2.25	1,791	8.39
Principal Retirement	43,885	4.27	3,135	7.69
Interest	51,178	4.98	1,462	2.94
Issuance Costs	271	0.03	69	34.16
Transfers-Out	121,089	11.78	9,393	8.41
Total	**$1,028,149**	**100.00%**	**$ 80,731**	

The total fund balance of the General Fund at year-end was $96,198, a decrease of $9,504 from the total fund balance for the close of fiscal year 2000. The undesignated fund balance in the General Fund at the close of the fiscal year was $49,437, a decrease of $13,527 from the previous year's undesignated balance. The undesignated fund balance represents amounts available for additional appropriations.

PROPRIETARY OPERATIONS

Enterprise Funds: During the fiscal year, the Primary Government included four separate and distinct enterprise activities: the Airport System, Parking Facilities, the Golf Course System, and the Solid Waste System.

Airport System: The Airport System operations consist of San Antonio International and Stinson Municipal Airports. San Antonio International Airport was opened in 1942, and occupies approximately 2,600 acres of land. It consists of 3 runways, 2 terminals, and 28 gates, which accommodates many of the world's major airlines. For the calendar years 2000 and 2001, total enplaned passengers were 3,647,094 and 3,443,434 respectively. Airport System retained earnings as of September 30, 2001, totaled $101,839 of which $6,066 was unreserved.

FINANCIAL INFORMATION

PROPRIETARY OPERATIONS (Continued)

Parking Facilities: The City's Parking Facility operation includes 5 parking garages with 3,347 parking spaces, 10 City-owned and 9 leased surface parking lots providing approximately 4,605 parking spaces, and 2,124 on-street parking meters for a total of 10,076 parking spaces. It also includes over 42,000 square feet of retail/office space. Retained earnings as of September 30, 2001 totaled $11,444 of which $3,413 was unreserved.

Golf Course System: Operations include six 18-hole golf courses, two par 3 nine-hole golf courses, and 3 driving and practice ranges. Retained earnings as of September 30, 2001 totaled ($1,513) of which ($536) was unreserved.

Solid Waste System: The Solid Waste Systems operation includes the disposal of curbside solid waste, brush collection, and recycling, for over 297,113 residential customers, and the maintenance and monitoring of the City's eight closed landfills. Retained earnings as of September 30, 2001 totaled $3,710 of which $1,538 was unreserved.

Discretely Presented Proprietary Component Units: The San Antonio Water System (SAWS), City Public Service (CPS), the San Antonio Local Development Company, Inc. (SALDC), are entities which operate under quasi-independent boards of trustees and are managed independently. Considering the criteria set forth in GASB Statement No. 14, management has determined that these entities are required to be discretely presented with the City's financial statements.

Internal Service Funds: The Internal Service Funds were established to account for goods or services provided by a centralized department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's Internal Service Funds are divided into three sections: Other Internal Services, Information Services, and the Self-Insurance Programs.

Other Internal Services: The Other Internal Service Funds include activity pertaining to Central Stores, Motor Pool, Communications Service, Automotive Repair, Building Maintenance and Repair, and Temporary Services.

Information Services: The Information Services Fund includes activity pertaining to data processing, programming, and related computer services to other City departments.

Self-Insurance Programs: The Self-Insurance Programs include funds used to account for the administration of all tort claims against the City, and for the operation of the City's Employee Benefits Program, Workers' Compensation Program, Unemployment Compensation Program, Extended Sick Leave Program, and Employee Wellness Program.

FIDUCIARY OPERATIONS

Fiduciary Funds consist of Trust and Agency funds. Trust funds are used to account for assets held by the City in the capacity of trustee. Agency funds are used to account for assets held by the City in an agency relationship with individuals, private organizations, other governments and/or funds.

The Fire and Police Pension Fund is used to account for resources of the pension fund established for the City's firefighters and police officers, as provided for under state law. Resources are contributed by Fire and Police employees and the City at rates fixed by state law. In fiscal year 2001, Fire and Police employees contributed 12.32% of covered payroll while the City contributed 24.64% of covered payroll, as indicated in Footnote No. 8 entitled "Pension and Retirement Plans".

FINANCIAL INFORMATION

FIDUCIARY OPERATIONS (Continued)

Regarding the Fire and Police Pension Fund, an actuarial study of the funds as of October 1, 2000 determined an Actuarial Accrued Liability (AAL) of $1,339,954. The Actuarial value of assets for the same valuation date was $1,181,582 resulting in an unfunded Actuarial Accrued Liability of $158,372.

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health plan was created in October, 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide post employment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund ("Health Fund") was created to provide these post employment healthcare benefits for eligible uniformed employees of the City. For the year ended September 30, 2001, contributions to the Health Fund were comprised of 9.4% of base pay plus longevity for both firefighters and police officers. Additionally, beginning in January 2001, active firefighters and police officers each contribute $20 per month. Please note this $20 is not stated in thousands.

GENERAL FIXED ASSETS ACCOUNT GROUP

The City accounts for all its fixed assets in this Account Group, except for those accounted for in the Proprietary Funds and the Pension Trust Fund. General Fixed Assets amounted to $2,348,315 at year-end compared to $2,208,380 at the beginning of the year, a net increase of $139,935.

GENERAL LONG-TERM DEBT ACCOUNT GROUP

The City accounts for all long-term liabilities expected to be funded from governmental funds in this Account Group. Long-term debt of governmental funds increased by $27 from $1,023,489 at the end of fiscal year 2000 to $1,050,456 at the end of fiscal year 2001.

Fiscal Management and Administrative Topics

Texas Municipal Retirement System
The City is a member of the Texas Municipal Retirement System (TMRS), which administers the City's retirement benefits program for civilian employees. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.61%. Both the City and its covered employees made the required contributions of $11,105 and $21,610 respectively, as indicated in Footnote No. 8 entitled "Pension and Retirement Plans".

Cash and Investment Management
The City's investment policies are governed by state statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each fund's investment. Each investment strategy statement will describe strategy objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)
The City is authorized to use demand accounts, time accounts, and certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio includes investment in callable obligations, but does not contain any derivative products. It is not the City's policy to use such investment vehicles or strategies in its portfolio, nor does the City leverage its investments.

At September 30, 2001, investable City funds were 72.88% invested in obligations of the United States, or its agencies and instrumentalities, and 24.11% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 3.01% of the City's portfolio includes the Convention Center debt service reserve fund of $16,999, which is invested in fully collateralized repurchase agreements that are fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law and the City's investment policy. Excluding the aforementioned Convention Center repurchase agreement, at September 30, 2001, the City's investment portfolio had a par value of $411,954, with an average life of 81 days and a weighted average yield of 4.46%.

Risk Management Programs
In fiscal year 2001, the financial status and development of the City's Risk Management and Self-Insurance Programs reflected, for the fourth time in ten years, both the Liability Reserve Fund and the Workers' Compensation Fund ending with positive fund balances in the amounts of $7,649 and $3,292 respectively. To fully appreciate the extent of the favorable financial status, it is important to note that beginning October 1, 1987, the City changed its accounting procedures to record accrued claims liabilities related to Workers' Compensation and Property Casualty (general liability), which previously had been accounted for in the General Long-Term Debt Account Group, in the respective Internal Service Self-Insurance Program Funds. This change resulted in considerable negative account balances in the related funds at that time. The Liability and Workers' Compensation Funds carried cash reserves at September 30, 2001 in the amount of $26,097 and $19,390, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,186 employees received formal classroom training on a number of subjects, totaling 15,642 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses. The Safety Office has spent in excess of 1,900 hours in delivering the aforementioned formal training. In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided City Departments 1,913 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2001. It has initiated the use of a more comprehensive format during consultative visits with Departments this year to assist in identifying and evaluating both safety, health and liability risk exposure. Loss Control abatement measures are recommended wherever possible. Preventing cumulative trauma and repetitive motion injuries have continued to receive major focus by the inspection and evaluation of employee work environments with recommendations for adjustments or changes when needed. Facility inspections and accident investigations are also conducted by the Safety Specialists. Review of accident statistics continues to represent a significant area of responsibility for the Section in order to assist Departments identify and correct

Risk Management Programs (Continued)
negative trends in frequent and loss severity. This year, 6,583 employee driver evaluations were processed with records being updated.

Employee Benefits Programs
The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased claims volume and changing employee demographics. Cost containment programs including hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization are utilized to manage the rising cost of medical care. Such strategies have been effective for the City in managing medical cost in a changing health care industry. In addition to continuing enhancement of these cost containment programs, the City will seek the services of an outside consultant in 2002 to perform a comprehensive review of the employee benefits programs. In fiscal year 2001, the Employee Benefits Fund had cash reserves of $970 and a deficit retained earnings of $4,819.

Debt Administration
The City utilizes a comprehensive, debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

At September 30, 2001, the City's gross principal amount of outstanding indebtedness that is secured by an ad valorem tax pledge was $768,693. The table shown below illustrates the composition of the City's long-term indebtedness payable from ad valorem taxes.

LONG-TERM INDEBTEDNESS
PAYABLE FROM AD VALOREM TAXES

General Improvement and Refunding Bonds	$ 642,878
Tax-Exempt Commercial Paper Notes	15,000
Taxable Combination Tax and Revenue Certificates of Obligation	17,010
Combination Tax-Exempt and Revenue Certificates of Obligation	93,805
Total Debt Payable from Ad Valorem Taxes	768,693
Less Self-Supporting Debt	22,255
Net Debt Payable from Ad Valorem Taxes	$ 746,438

The total and net debt amounts contained in the schedule above are equal to 2.13% and 2.07% respectively of the tax roll year 2000 for fiscal year ended September 30, 2001 net taxable assessed valuation of $36,033,321. Authorized but unissued debt as of September 30, 2001 equaled $114,245, of which the City does not intend to

(Monetary Amounts Are Expressed in Thousands)

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)
issue $16,660 authorized by the January 26, 1980 election. This results in net authorized but unissued debt totaling $97,585 as of the fiscal year-end.

On November 30, 2000, the City issued the following: $15,615 General Improvement Bonds, Series 2000A (the "2000A Bonds"); $8,810 Combination Tax and Revenue Certificates of Obligation, Series 2000A (the "2000A Certificates"); $1,755 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B (the "2000B Taxable Certificates"); and $6,415 Combination Tax and Revenue Certificates of Obligation, Series C (the "2000C Certificates"). As of September 30, 2001, the City has $15,000 outstanding of the Tax-Exempt Commercial Paper Notes. The bonds and tax-exempt commercial paper notes are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

Proceeds from the 2000A Bonds will be utilized to fund capital improvement projects to include streets and pedestrian improvements, drainage improvements, flood control with park improvements, parks and recreation facilities improvements, library system improvements, and public safety improvements.

Proceeds from the 2000A Certificates will be utilized to fund capital improvement projects to include public safety, including renovations to existing fire stations and construction of new fire stations, street, sidewalk and drainage improvements; to acquire land and rights-of-way for public purposes and costs related to the implementation of a new Enterprise Resource Management System.

Proceeds from the 2000B Taxable Certificates will be utilized to construct, acquire, equip, renovate, and repair public works including improvements to municipally-owned facilities including the Alameda Theater.

Proceeds from the 2000C Certificates will be utilized to fund improvements to redevelop areas along Houston and Presa Streets, a pedestrian linkage from the River Walk to the Historic Civic Center area, and disability access improvements along Crockett Street in connection with the Houston Street Redevelopment Project. The Houston Street Redevelopment Project is a private and public economic development venture to revitalize commercial activity in San Antonio's downtown district.

On April 19, 2001 the City Council approved the sale of the $50,230 Airport System Forward Refunding Revenue Bonds, Series 2003 to refund a portion of the Airport System Improvement Bonds, Series 1993 to effect a present value savings. It is expected that the Series 2003 Bonds will be available for delivery on or about April 8, 2003.

On May 31, 2001, the City Council approved the sale of the $14,465 Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 to provide funds for the construction of the One Stop Development Services Center. The purpose of the One Stop Development Services Center is to provide a convenient, single source of information and assistance to private sector entities that are expanding, developing or relocating their business. Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were delivered on July 11, 2001.

On August 30, 2001, City Council approved the sale of $17,795 Airport System Improvement Revenue Bonds, Series 2001 to provide funds for construction, improvements, equipment, renovation, and additions to the International Airport. The City effectuated a cash defeasance of $17,875 in Airport System Improvement Revenue Bonds, Series 1996 utilizing available funds in the Airport Capital Improvement Fund, which generated total savings of $1,165 and present value savings of $865 or 4.84%. The Airport System Improvement Revenue Bonds, Series 2001 were delivered on September 20, 2001.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)
On November 8, 2001, the City Council approved the sale of the following obligations: $84,945 General Improvement and Refunding Bonds, Series 2001 (the "2001 Bonds"); $65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001 (the "Series 2001 Certificates"); and $251,280 General Improvement Forward Refunding Bonds, Series 2002 (the "2002 Forward Refunding Bonds").

The proceeds from the 2001 Bonds will be utilized to refund a portion of the City's outstanding tax supported debt to effect a present value savings, to finance the construction of general improvements to the City, including streets and pedestrian improvements, drainage improvements, flood control with park improvements, parks and recreation facilities improvements, library system improvements, and public safety improvements.

The proceeds from the 2001 Certificates will be utilized to fund capital improvement projects to include constructing public safety improvements, including constructing new fire stations and renovating and improving existing fire stations, the construction of public works; constructing street improvements, sidewalk improvements, bridge improvements, drainage improvements, and drainage incidental thereto, the construction of public works; constructing improvements and renovations to existing municipal facilities, the construction of economic development improvements, including the acquisition of buildings, construction of street improvements and drainage improvements and utility relocation related thereto, and demolition of buildings, relating to KellyUSA, the construction of park improvements, the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public works purposes, to pay the costs associated with the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto.

The 2002 Forward Refunding Bonds will be utilized to refund a portion of the City's outstanding tax supported debt to effect a present value savings. It is expected that the 2002 Forward Refunding Bonds will be available for delivery on or about May 8, 2002.

No direct debt limitation is imposed on the City under current Texas law, however, the City Charter provides that the total bonded debt of the City must never exceed ten percent (10%) of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at ninety percent (90%) collection. There is no limitation within the $2.50 for interest and sinking fund purposes.

The ad valorem tax rate approved by City ordinance for the fiscal year ended September 30, 2001, was $0.57979 per $100 assessed valuation, of which the debt service component is $0.22900 and the maintenance and operation portion is $0.35079. (NOTE: Tax rates in this "Debt Administration" section are not expressed in thousands.)

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively. The positive trend in the City's credit strength is evidenced by Standard & Poor's rating upgrade in December, 1998 from "AA" to its current "AA+" and Fitch, Inc.'s rating upgrade in October, 1999 from "AA" to "AA+".

FINANCIAL INFORMATION

OTHER INFORMATION

INDEPENDENT AUDIT

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA in 1997. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the general purpose financial statements, combining and individual fund statements, and required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996 and OMB Circular A-133 are in a separate document.

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitors stems from its historical beauty, high quality of life and low cost of living. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2000. This was the 25th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. The report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year and we believe the current CAFR continues to meet the Certificate of Achievement Program's requirements.

The North American Small Business International Trade Educators (NASBITE) has awarded its 2001 Program Excellence Award to the San Antonio Export Leader Program (SAELP), which is run by the International Affairs Department, for its innovative approach to assisting and educating existing San Antonio businesses that have a high potential to develop and expand international markets for their products and services.

The Planning Department received the "Texas Chapter 2001 American Planning Association Award Recipient - Current Planning Award" for development of the Unified Development Code (UDC). This award is the result of over 8,500 hours of stakeholder input over a period of 18 months. The UDC unifies all development-related ordinances and infrastructure standards into one "stand alone" document. It streamlines the development review processes that create certainty for developers while neighborhoods benefit from stricter design controls and increased opportunities for public involvement. The UDC was adopted by City Council in May 2001.

Planning also received Honorable Mention in the "Texas Chapter 2001 American Planning Association Award Recipient - Project Planning Award" for their Midtown Neighborhoods Plan. This award is the result of a partnership between the Alta Vista Neighborhood, the Beacon Hill Neighborhood, the St. Ann's Neighborhood, and the MidTown on Blanco Partnership, with the City's Planning Department. Despite the fact that over one-third of the area is below the poverty level and despite an annual median household income of less than $15,000, hundreds of neighborhood leaders were able to participate over the course of one year to produce a detailed action plan for the future. This plan is unique in that every structure in the 10,000 acre planning area was inventoried for its condition. Indicators included roof and siding condition, as well as the number of cracks, and the extent of structural leaning. The plan was adopted by City Council in October 2000.

OTHER INFORMATION (Continued)

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2001, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Milo Nitschke
Director
Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

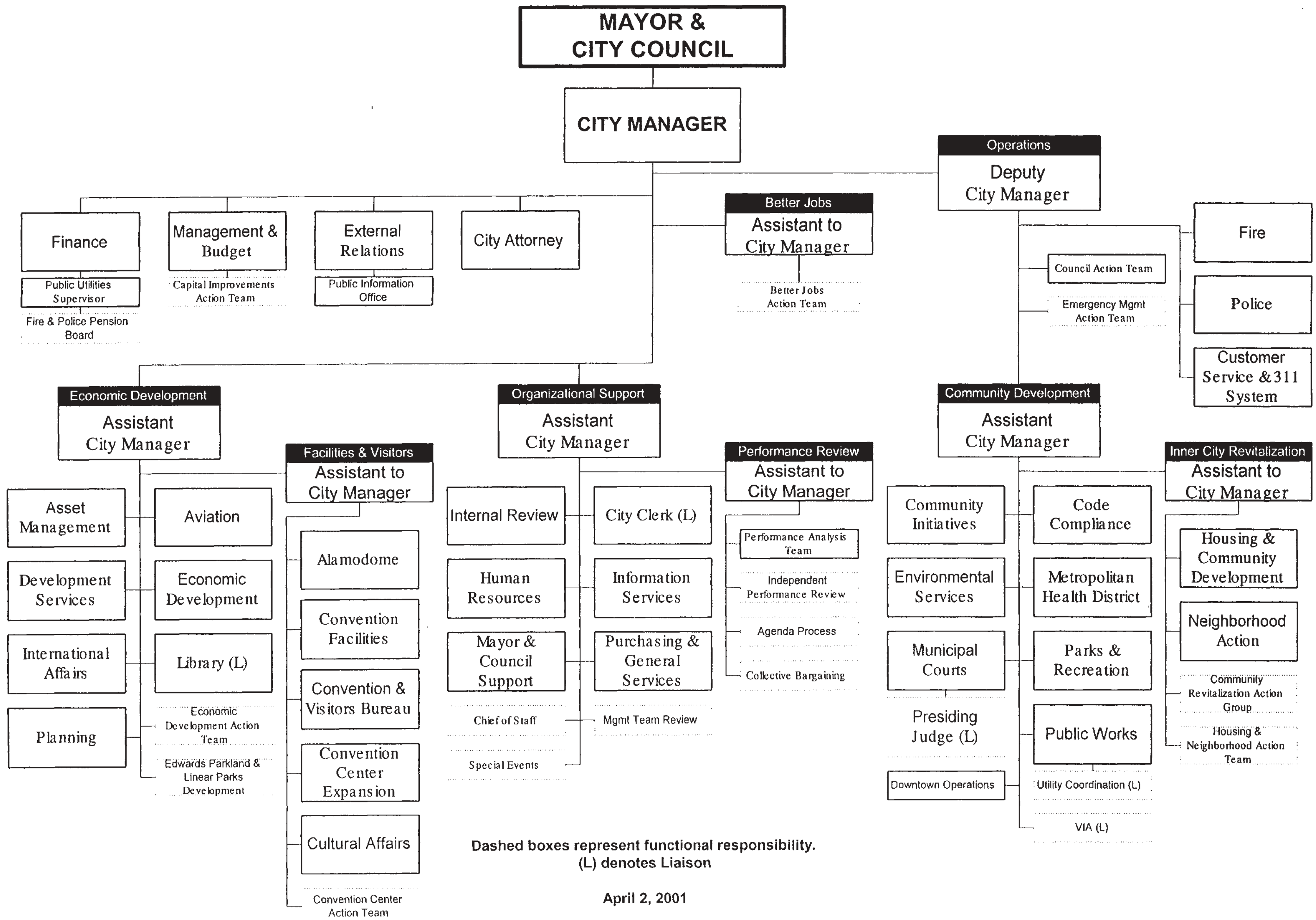
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Antonio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2000. This was the 25th consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

City of San Antonio



Dashed boxes represent functional responsibility.
(L) denotes Liaison

April 2, 2001

CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837 *Charter Adopted October 2, 1951*
Council - Manager Form of Government

CITY COUNCIL
Edward D. Garza, Mayor

Bobby Perez
John H. Sanders
Antoniette Moorhouse
Enrique Martin
David A. Garcia
Enrique M. Barrera
Julian Castro
Bonnie Conner
Carroll W. Schubert
David Carpenter

CITY MANAGER
Terry M. Brechtel

DEPUTY CITY MANAGER
J. Rolando Bono

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Travis M. Bishop

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT TO THE CITY MANAGER
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

MEMBER OF THE GOVERNMENT FINANCE OFFICERS
ASSOCIATION OF THE UNITED STATES & CANADA

City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

KPMG

112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

RJW

Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

GARZA/GONZALEZ
& Associates
Certified Public Accountants
212 Stumberg, Suite 208
San Antonio, Tx 78204

Independent Auditors' Report

To the Honorable Edward D. Garza, Mayor
and Members of City Council
City of San Antonio, Texas:

We have audited the accompanying general purpose financial statements of the City of San Antonio, Texas, as of and for the year ended September 30, 2001 as listed in the accompanying table of contents under "General Purpose Financial Statements." These general purpose financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. KPMG LLP and Robert J. Williams did not audit the financial statements of the discretely presented component units, with the exception of the City Public Service Board, representing 25% and 16% of the total assets and total revenues, respectively, of the related combined total of the discretely presented component units. Garza/Gonzalez and Associates did not audit the financial statements of the discretely presented component units, with the exception of the San Antonio Water System and Greater Kelly Development Authority, representing 75% and 85% of the total assets and total revenues, respectively, of the related combined total of the discretely presented component units. Except as noted above, those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material repects, the financial position of the City of San Antonio, Texas, as of September 30, 2001, and the results of its operations, the cash flows of its proprietary fund types and the changes in plan net assets of its pension trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedules of Funding Progress on pages 85-86 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied to the Schedules of Funding Progress certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP   Robert J Williams CPA   [illegible]/Gonzalez & Associates

February 8, 2002

City of San Antonio
Texas

General Purpose Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

ASSETS AND OTHER DEBITS	GOVERNMENTAL FUND TYPES GENERAL	GOVERNMENTAL FUND TYPES SPECIAL REVENUE	GOVERNMENTAL FUND TYPES DEBT SERVICE	GOVERNMENTAL FUND TYPES CAPITAL PROJECTS	PROPRIETARY FUND TYPES ENTERPRISE	PROPRIETARY FUND TYPES INTERNAL SERVICE
Assets:						
Cash and Cash Equivalents	$ 19,014	$ 46,896	$ 26,921	$ 87,596	$ 8,148	$ 37,076
Security Lending Collateral-Cash and Cash Equivalents						
Investments	17,331	51,931	60,750	66,108	9,375	42,704
Receivables:						
Taxes, Including Interest, Penalties and Liens	15,326		10,005			
Other Accounts	17,819	3,803			2,323	94
Less Allowances for Uncollectibles	(5,547)		(1,607)		(442)	
Notes		6,663	1,053			220
Accrued Interest	473	505	424	766	126	406
Accrued Revenue	45,855	13,806			3,994	53
Contributions						
Prepaid Expenditures	20	43				
Due from Other Funds	24,539	2,050	228		319	571
Due from Other Governmental Agencies	322	30,486		2,553	127	534
Inventories of Materials and Supplies, at Cost	2,808	1,441			866	2,071
Prepayments					13	
Deposits				261		789
Restricted Assets:						
Cash and Cash Equivalents					30,158	
Investments					44,321	
Receivables - Accrued Interest					377	
Due from Other Funds				19	610	
Prepaid Expenditures					466	
Fixed Assets (Net of Accumulated Depreciation)					270,986	42,082
Prepaid Rent Long Term-Leaseback						
Unamortized Debt Expense					2,371	
Other Debits:						
Amount Available in Debt Service Fund						
Amount to be Provided for Retirement of General Long-Term Debt						
Total Assets and Other Debits	$ 137,960	$ 157,624	$ 97,774	$ 157,303	$ 374,138	$ 126,600

The notes to the financial statements are an integral part of this statement.

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

ASSETS AND OTHER DEBITS	FIDUCIARY FUND TYPE TRUST AND AGENCY	ACCOUNT GROUPS GENERAL FIXED ASSETS	ACCOUNT GROUPS GENERAL LONG-TERM DEBT	TOTALS (MEMORANDUM ONLY) PRIMARY GOVERNMENT	COMPONENT UNITS GOVERNMENTAL	COMPONENT UNITS PROPRIETARY	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY 2001	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY 2000
Assets:								
Cash and Cash Equivalents	$ 94,273	$ 0	$ 0	$ 319,924	$ 13,328	$ 23,264	$ 356,516	$ 207,920
Security Lending Collateral-Cash and Cash Equivalents	86,510			86,510			86,510	135,554
Investments	1,274,037			1,522,236	446	204,780	1,727,462	1,927,377
Receivables:								
Taxes, Including Interest, Penalties and Liens				25,331			25,331	28,337
Other Accounts	11,524			35,563	5,913	209,173	250,649	165,513
Less Allowances for Uncollectibles				(7,596)			(7,596)	(6,356)
Notes				7,936	1,800	2,633	12,369	11,198
Accrued Interest	6,744			9,444		495	9,939	11,375
Accrued Revenue				63,708			63,708	59,957
Contributions	372			372			372	
Prepaid Expenditures				63			63	21
Due from Other Funds				27,707			27,707	16,951
Due from Other Governmental Agencies				34,022	2,998	32	37,052	35,964
Inventories of Materials and Supplies, at Cost				7,186	236	102,072	109,494	113,683
Prepayments	146			159		28,334	28,493	23,766
Deposits				1,050			1,050	977
Restricted Assets:								
Cash and Cash Equivalents				30,158		76,514	106,672	28,853
Investments				44,321		823,182	867,503	639,489
Receivables - Accrued Interest				377			377	672
Due from Other Funds				629			629	366
Prepaid Expenditures				466			466	
Fixed Assets (Net of Accumulated Depreciation)	379	2,348,315		2,661,762	134,728	5,712,522	8,509,012	8,235,782
Prepaid Rent Long Term-Leaseback						595,341	595,341	
Unamortized Debt Expense				2,371		33,998	36,369	23,271
Other Debits:								
Amount Available in Debt Service Fund			89,171	89,171			89,171	85,109
Amount to be Provided for Retirement of General Long-Term Debt			961,285	961,285	28,607		989,892	957,166
Total Assets and Other Debits	$ 1,473,985	$ 2,348,315	$ 1,050,456	$ 5,924,155	$ 188,056	$ 7,812,340	$ 13,924,551	$ 12,702,945

(Cont'd)

—— CITY OF SAN ANTONIO, TEXAS —— -2-

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2001

(With comparative totals for September 30, 2000)
(In Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS		TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
LIABILITIES AND EQUITY AND OTHER CREDITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	PRIMARY GOVERNMENT	GOVERNMENTAL	PROPRIETARY	2001	2000
Liabilities:														
Vouchers Payable	$ 4,132	$ 13,109	$ 0	$ 7,892	$ 1,185	$ 2,487	$ 2,951	$ 0	$ 0	$ 31,756	$ 7,225	$ 180,356	$ 219,337	$ 171,241
Deferred Revenues	29,855	6,663	8,398		464					45,380	878		46,258	47,102
Accounts Payable-Other	2,020	2,728	128	9,640	8,202	41,120	28,334			92,172	980	12,185	105,337	102,248
Accrued Payroll	2,443	1,099			619	506	79			4,746		3,685	8,431	8,515
Accrued Leave Payable	2,858	568			2,107	1,089	3			6,625	237	4,122	10,984	10,823
Accrued Interest					3	4				7			7	8
Lease Purchase Agreements - Current						420				420			420	336
Lease Purchase Agreements - Long-Term						700				700			700	18
Matured Bonds and Interest Payable			9							9			9	9
Commercial Paper Notes									47,700	47,700		417,800	465,500	195,100
Payable from Restricted Assets:														
Vouchers Payable					393					393			393	514
Other Payables					3,057					3,057		224,894	227,951	198,609
Lease Purchase Agreements - Current					135					135			135	153
Lease Purchase Agreements - Long-Term					360					360			360	1,202
Accrued Revenue Bond and Certificate Interest					1,930					1,930		2,954	4,884	3,939
Current Portion of General Obligation Bonds and Certificates					1,480					1,480		96,800	98,280	97,690
Current Portion of Revenue Bonds					5,080					5,080			5,080	
Due to Other Funds					965					965			965	19
Deferred Lease Revenue												22,561	22,561	
Due to:														
Other Funds	453	23,981	68	410	719	1,149	591			27,371			27,371	17,298
Other Governmental Agencies	1	2,057				711				2,769	4,832		7,601	8,434
Security Lending							86,510			86,510			86,510	135,554
Amounts Held In Trust		4								4			4	163
Notes Payable/Lease Purchase									3,654	3,654	28,607		32,261	23,224
Notes Payable - Long-Term					1,053					1,053			1,053	702
General Obligation Bonds Payable									626,113	626,113			626,113	645,918
Certificates of Obligation Payable									108,585	108,585			108,585	99,240
Revenue Bonds Payable									189,712	189,712			189,712	188,652
General Obligation Bonds and Certificates (Net of Current Portion)					17,515					17,515			17,515	18,995
Revenue Bonds (Net of Current Portion)					125,135					125,135		3,300,475	3,425,610	3,450,095
Unamortized Premium												1,704	1,704	1,816
Less: Unamortized Discount on New Series Bonds					(653)					(653)		(19,498)	(20,151)	(36,090)
Deferred Amount on Refunding					(106)					(106)		(167,592)	(167,698)	(201,439)
Long-Term Debt												592	592	15,418
Deferred Lease Revenue												678,696	678,696	
Accumulated Accrued:														
Sick Leave									48,477	48,477			48,477	44,749
Annual Leave									26,215	26,215			26,215	23,819
Total Liabilities	41,762	50,209	8,603	17,942	169,643	48,186	118,468		1,050,456	1,505,269	42,759	4,759,734	6,307,762	5,274,074
Fund Equity and Other Credits:														
Contributed Capital (Net of Amortization)					89,015	39,418				128,433		622,615	751,048	727,486
Investment in General Fixed Assets								2,348,315		2,348,315	134,728		2,483,043	2,275,627
Retained Earnings:														
Reserved for Bond Retirement					13,763					13,763		2,196	15,959	15,018
Reserved for Construction					78,616					78,616		125,074	203,690	98,925
Reserved for Improvement and Contingency					12,621					12,621		502,771	515,392	398,013
Reserved for Equipment Renewal and Replacement						20,769				20,769			20,769	16,111
Unreserved					10,480	18,227				28,707		1,799,950	1,828,657	1,966,605
Fund Balances:														
Reserved:														
Reserved for Encumbrances	6,712	10,584		92,847			43			110,186			110,186	193,559
Reserved for Inventories	2,808	1,441								4,249	236		4,485	4,940
Reserved for Prepaid Expenditures	20	43								63			63	21
Reserved for Employees' Pension/Postemployment Healthcare Benefits							1,340,903			1,340,903			1,340,903	1,486,044
Reserved for Debt Service			69,369							69,369			69,369	65,379
Reserved for Convention Center Project			18,749							18,749			18,749	19,728
Reserved for Notes			1,053							1,053	2,410		3,463	2,728
Reserved for Other Restricted Purposes											2,548		2,548	520
Unreserved:														
Designated	37,221	18,531					2,670			58,422	2,233		60,655	45,296
Undesignated	49,437	76,816		46,514			11,901			184,668	3,142		187,810	112,871
Total Equity and Other Credits	96,198	107,415	89,171	139,361	204,495	78,414	1,355,517	2,348,315		4,418,886	145,297	3,052,606	7,616,789	7,428,871
Total Liabilities and Fund Equity and Other Credits	$ 137,960	$ 157,624	$ 97,774	$ 157,303	$ 374,138	$ 126,600	$ 1,473,985	$ 2,348,315	$ 1,050,456	$ 5,924,155	$ 188,056	$ 7,812,340	$ 13,924,551	$ 12,702,945

The notes to the financial statements are an integral part of this statement.

(end of statement)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTALS (MEMORANDUM ONLY)	GOVERNMENTAL	TOTALS (MEMORANDUM ONLY)	
								REPORTING ENTITY	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Revenues									
Taxes	$ 291,379	$ 63,342	$ 82,851	$ 0	$ 0	$ 437,572	$ 0	$ 437,572	$ 400,708
Licenses and Permits	12,683					12,683		12,683	12,258
Intergovernmental	2,866	168,707		13,468		185,041	15,331	200,372	206,848
Revenues from Utilities	187,940					187,940		187,940	172,301
Charges for Services	23,212	48,707			26	71,945	14,351	86,296	78,870
Fines and Forfeits	11,116					11,116		11,116	11,593
Miscellaneous	14,249	18,612	6,658	12,992	760	53,271	14,134	67,405	65,160
In-Kind Contributions		11,021				11,021	261	11,282	13,014
Total Revenues	543,445	310,389	89,509	26,460	786	970,589	44,077	1,014,666	960,752
Expenditures									
Current:									
General Government	68,364	912			139	69,415		69,415	55,929
Public Safety	326,228	13,584				339,812		339,812	320,512
Streets and Roadways	9,804	49,429				59,233		59,233	62,412
Health Services	13,401	58,500				71,901		71,901	63,810
Environmental Protection and Control		106				106		106	135
Sanitation	2,754					2,754		2,754	2,601
Welfare	16,465	105,176				121,641		121,641	101,638
Culture and Recreation	58,137	7,220				65,357		65,357	59,643
Convention and Tourism		42,316				42,316		42,316	38,712
Conservation		42				42		42	9
Urban Redevelopment and Housing		16,147			1,300	17,447	5,021	22,468	29,883
Economic Development and Opportunity	6,394	16,747				23,141	42,562	65,703	70,517
Capital Projects				136,279		136,279		136,279	132,740
Debt Service:									
Principal Retirement			43,885			43,885		43,885	40,750
Interest			51,178			51,178		51,178	49,716
Issuance Costs			271			271		271	202
Total Expenditures	501,547	310,179	95,334	136,279	1,439	1,044,778	47,583	1,092,361	1,029,209

(Cont'd)

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Excess (Deficiency) of Revenues Over (Under) Expenditures	41,898	210	(5,825)	(109,819)	(653)	(74,189)	(3,506)	(77,695)	(68,457)
Other Financing Sources (Uses)									
Proceeds of Debt Issuance				79,760		79,760		79,760	67,285
Proceeds from Notes and Loans							8,614	8,614	3,709
Operating Transfers In	19,043	79,055	9,887	23,136		131,121		131,121	117,960
Operating Transfers Out	(70,445)	(50,644)		(8,391)	(29)	(129,509)		(129,509)	(117,123)
Total Other Financing Sources (Uses)	(51,402)	28,411	9,887	94,505	(29)	81,372	8,614	89,986	71,831
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(9,504)	28,621	4,062	(15,314)	(682)	7,183	5,108	12,291	3,374
Fund Balances, October 1 as Previously Reported	93,145	76,369	85,109	154,675	17,721	427,019	4,627	431,646	430,164
Change in Accounting Principle	12,557					12,557		12,557	11,499
Prior Period Adjustment		2,425			(2,425)		834	834	
Beginning Fund Balance as Restated	105,702	78,794	85,109	154,675	15,296	439,576	5,461	445,037	441,663
Fund Balances, September 30	$ 96,198	$ 107,415	$ 89,171	$ 139,361	$ 14,614	$ 446,759	$ 10,569	$ 457,328	$ 445,037

The notes to the financial statements are an integral part of this statement.

(end of statement)

CITY OF SAN ANTONIO, TEXAS

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL-GENERAL, SPECIAL REVENUE (WITH ANNUAL BUDGETS) AND DEBT SERVICE FUNDS
(NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(In Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS		
	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)
Revenues									
Taxes	$ 292,800	$ 291,379	$ (1,421)	$ 64,390	$ 63,165	$ (1,225)	$ 81,433	$ 82,851	$ 1,418
Licenses and Permits	13,957	12,683	(1,274)						
Intergovernmental	2,427	2,866	439	2,957	3,052	95			
Revenues from Utilities	154,110	187,940	33,830						
Charges for Services	22,286	23,212	926	46,691	47,009	318			
Fines and Forfeits	12,896	11,116	(1,780)						
Miscellaneous	13,960	14,249	289	3,674	6,996	3,322	7,000	6,658	(342)
Total Revenues	512,436	543,445	31,009	117,712	120,222	2,510	88,433	89,509	1,076
Expenditures									
Current:									
General Government	82,656	69,213	13,443	7	7				
Public Safety	328,518	327,363	1,155	2,305	1,759	546			
Streets and Roadways	10,044	9,869	175	38,522	37,925	597			
Health Services	13,716	13,423	293	37,309	37,588	(279)			
Sanitation	2,767	2,755	12						
Welfare	17,193	17,159	34						
Culture and Recreation	60,443	58,341	2,102	1,483	1,270	213			
Convention and Tourism				49,019	43,789	5,230			
Economic Development and Opportunity	7,660	6,791	869	2,000	1,072	928			
Debt Service							94,920	95,334	(414)
Total Expenditures	522,997	504,914	18,083	130,645	123,410	7,235	94,920	95,334	(414)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,561)	38,531	49,092	(12,933)	(3,188)	9,745	(6,487)	(5,825)	662
Other Financing Sources (Uses)									
Operating Transfers In	19,163	19,043	(120)	60,431	60,560	129	8,643	9,887	1,244
Operating Transfers Out	(73,647)	(73,790)	(143)	(68,557)	(46,991)	21,566			
Total Other Financing Sources (Uses)	(54,484)	(54,747)	(263)	(8,126)	13,569	21,695	8,643	9,887	1,244
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(65,045)	(16,216)	$ 48,829	(21,059)	10,381	$ 31,440	2,156	4,062	$ 1,906
Fund Balances, October 1	93,145	93,145		72,452	72,452		85,109	85,109	
Change in Accounting Principle (See Note 1, Section V)		12,557							
Beginning Fund Balance as Restated	93,145	105,702		72,452	72,452		85,109	85,109	
Add Encumbrances		6,712			10,172				
Fund Balances, September 30	$ 28,100	$ 96,198		$ 51,393	$ 93,005		$ 87,265	$ 89,171	

The notes to the financial statements are an integral part of this statement.

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Operating Revenues						
Charges for Services	$ 96,129	$ 118,773	$ 214,902	$ 1,539,997	$ 1,754,899	$ 1,436,898
Operating Expenses						
Personal Services	42,787	27,613	70,400		70,400	61,568
Contractual Services	27,198	54,972	82,170	484	82,654	72,444
Commodities	5,235	3,698	8,933	13	8,946	8,303
Other	1,535	17,726	19,261		19,261	16,605
Materials		15,627	15,627		15,627	13,769
Gas, Electric & Water Systems Operations and Maintenance				1,064,235	1,064,235	784,641
Depreciation	8,638	8,684	17,322	246,927	264,249	231,726
Total Operating Expenses	85,393	128,320	213,713	1,311,659	1,525,372	1,189,056
Operating Income (Loss)	10,736	(9,547)	1,189	228,338	229,527	247,842
Nonoperating Revenues (Expenses)						
Interest and Other	5,286	4,063	9,349	58,950	68,299	57,786
Net Increase in Fair Value of Investments	81	83	164		164	
Other Nonoperating Revenue	3,268	1,773	5,041		5,041	1,787
Gain (Loss) on Disposition of Fixed Assets	(11)	779	768	48	816	434
Interest and Debt Expense	(9,717)	(49)	(9,766)	(186,203)	(195,969)	(194,887)
Other Nonoperating Expenses	(1,989)		(1,989)	(25,337)	(27,326)	(26,858)
Allowance for Funds Used During Construction				12,593	12,593	13,286
Total Nonoperating Revenues (Expenses)	(3,082)	6,649	3,567	(139,949)	(136,382)	(148,452)
Income (Loss) Before Operating Transfers	7,654	(2,898)	4,756	88,389	93,145	99,390
Operating Transfers In (Out)						
Operating Transfers In	2,351	5,265	7,616		7,616	7,518
Operating Transfers Out	(4,315)	(4,913)	(9,228)		(9,228)	(8,355)
Total Operating Transfers	(1,964)	352	(1,612)		(1,612)	(837)
Income (Loss) Before Extraordinary Item	5,690	(2,546)	3,144	88,389	91,533	98,553
Extraordinary Item						
Cash Defeasance of Bonds	(711)		(711)	(2,586)	(3,297)	
Net Income (Loss)	4,979	(2,546)	2,433	85,803	88,236	98,553
Add Amortization of (Depreciation of) Federally Contributed Fixed Assets	1,555		1,555		1,555	1,629
Increase (Decrease) In Retained Earnings	6,534	(2,546)	3,988	85,803	89,791	100,182
Retained Earnings/Fund Balances, October 1, as Previously Reported	108,946	41,542	150,488	2,344,184	2,494,672	2,394,494
Prior Period Adjustment				4	4	
Retained Earnings as Restated	108,946	41,542	150,488	2,344,188	2,494,676	2,394,494
Retained Earnings/Fund Balances, September 30	$ 115,480	$ 38,996	$ 154,476	$ 2,429,991	$ 2,584,467	$ 2,494,676

The notes to the financial statements are an integral part of this statement.

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COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Cash Flows from Operating Activities						
Cash Received from Customers	$ 97,651	$ 118,877	$ 216,528	$ 1,478,808	$ 1,695,336	$ 1,446,044
Cash Payments to Suppliers for Goods and Services	(35,154)	(90,953)	(126,107)	(940,011)	(1,066,118)	(829,934)
Cash Payments to Employees for Service	(42,704)	(27,382)	(70,086)	(51,634)	(121,720)	(115,064)
Other Nonoperating Revenues	325	1,773	2,098		2,098	1,787
Net Cash Provided by Operating Activities	20,118	2,315	22,433	487,163	509,596	502,833
Cash Flows from Non-Capital Financing Activities						
Operating Transfers In from Other Funds	2,822	5,265	8,087		8,087	7,743
Operating Transfers Out to Other Funds	(3,813)	(4,551)	(8,364)		(8,364)	(8,463)
Cash Payments from Other Governments						538
Net Cash Provided by (Used for) Non-Capital Financing Activities	(991)	714	(277)		(277)	(182)
Cash Flows from Capital and Related Financing Activities						
Acquisition and Construction of Capital Assets	(17,288)	(12,879)	(30,167)	(365,094)	(395,261)	(567,881)
Proceeds from Issuance of Long-Term Debt	18,658		18,658	542,356	561,014	272,932
Principal Payments on Long-Term Debt	(5,980)	(366)	(6,346)	(91,071)	(97,417)	(94,527)
Defeasance of Revenue Bonds	(17,875)		(17,875)		(17,875)	
Cost of Defeasance	(423)		(423)		(423)	
Interest Paid on Long-Term Debt	(9,913)	(51)	(9,964)	(191,888)	(201,852)	(199,292)
Debt Issuance Cost	(235)		(235)	(3,327)	(3,562)	(1,354)
Costs for Cash Defeasance of Debt				(198,160)	(198,160)	
Proceeds from Notes	350		350		350	350
Principal Payment on Notes	(158)		(158)	(766)	(924)	(796)
Interest Paid on Notes	(28)		(28)		(28)	(20)
Proceeds from Joint Operations Agreement				72,607	72,607	15,239
Proceeds from Litigation Settlement				10,306	10,306	18,975
Proceeds from Lease Transactions				725,000	725,000	
Payments for Leaseback Transactions				(637,027)	(637,027)	
Redemption of Commercial Paper				(8,300)	(8,300)	(139,700)
Payment on Defeasement on Revenue Bonds				(12,570)	(12,570)	
Capital Contributed for Construction				23,289	23,289	21,902
Proceeds from Sale of Assets	44	3,001	3,045	50	3,095	2,748
Net Cash (Used for) Capital and Related Financing Activities	(32,848)	(10,295)	(43,143)	(134,595)	(177,738)	(671,424)
Cash Flows from Investing Activities						
Purchase of Investment Securities	(473,174)	(292,039)	(765,213)	(1,390,864)	(2,156,077)	(1,796,594)
Maturity of Investment Securities	491,597	318,340	809,937	1,089,857	1,899,794	1,875,805
Notes Principal						(199)
Principal Collection on Notes		101	101	955	1,056	517
Loans Disbursed				(489)	(489)	(673)
Interest on Notes		19	19		19	28
Interest on Investments	5,697	4,422	10,119	36,276	46,395	55,080
Net Cash Provided by (Used for) Investing Activities	24,120	30,843	54,963	(264,265)	(209,302)	133,964
Net Increase (Decrease) in Cash and Cash Equivalents	10,399	23,577	33,976	88,303	122,279	(34,809)
Cash and Cash Equivalents, October 1	27,907	13,499	41,406	11,475	52,881	87,690
Cash and Cash Equivalents, September 30	$ 38,306	$ 37,076	$ 75,382	$ 99,778	$ 175,160	$ 52,881

The notes to the financial statements are an integral part of this statement.

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COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	$ 10,736	$ (9,547)	$ 1,189	$ 228,338	$ 229,527	$ 247,843
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	8,638	8,684	17,322	246,927	264,249	231,726
Other Nonoperating Revenues	325	1,773	2,098		2,098	1,787
Amortization Expense				15,825	15,825	18,142
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable				(59,126)	(59,126)	8,009
(Increase) Decrease in Other Accounts Receivable	750	(8)	742	(19,977)	(19,235)	(11,111)
Increase in Allowance for Uncollectibles	442		442		442	
(Increase) Decrease in Accrued Revenues	483	(53)	430	(162)	268	2,765
(Increase) Decrease in Due from Other Funds		59	59		59	(188)
(Increase) Decrease in Due From Other Gov't Agencies		129	129	(13)	116	(149)
(Increase) Decrease in Inventories		(205)	(205)	3,939	3,734	(19,117)
(Increase) in Prepaid Expenses	(479)		(479)	(16,105)	(16,584)	(4,786)
(Increase) Decrease in Deposits		(267)	(267)		(267)	142
Increase (Decrease) in Vouchers Payable	173	(746)	(573)	59,252	58,679	16,960
Increase (Decrease) in Other Payables	(881)	2,268	1,387	27,553	28,940	11,089
Increase (Decrease) in Due to Other Funds		(3)	(3)		(3)	3
Increase (Decrease) in Accrued Payroll	12	173	185	(582)	(397)	(49)
Increase in Accrued Leave Payable	71	58	129	195	324	625
(Decrease) in Deferred Revenue	(152)		(152)		(152)	(916)
Increase in Customer Deposits				1,099	1,099	58
Net Cash Provided by Operating Activities	$ 20,118	$ 2,315	$ 22,433	$ 487,163	$ 509,596	$ 502,833
Noncash Investing, Capital and Financing Activities:						
Acquisition and Construction of Capital Assets from Capital Contributions	$ 2,943	$ 3,440	$ 6,383	$ 13,505	$ 19,888	$ 23,030
Net Increase in Fair Value of Investments	$ 81	$ 83	$ 164	$ 0	$ 164	$ 0

(end of statement)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUND TYPE
FIRE AND POLICE PENSION/RETIREE HEALTH CARE TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	FIRE AND POLICE PENSION FUND	FIRE AND POLICE RETIREE HEALTH CARE FUND	TOTALS 2001	TOTALS 2000
Additions				
Contributions:				
City Contribution	$ 42,065	$ 14,741	$ 56,806	$ 54,127
Contributions from Employees	21,032	867	21,899	20,342
Total Contributions	63,097	15,608	78,705	74,469
Investment Income (Loss):				
Interest and Dividends	34,130	2,436	36,566	61,898
Net Appreciation (Depreciation) in Fair Value of Investments	(189,396)	(13,724)	(203,120)	166,623
Real Estate Income, Net	223		223	250
Securities Lending Income	6,536		6,536	7,464
Other Income	463	27	490	359
Less Investment Expenses:				
Investment Management and Custodial Fees	(4,528)	(670)	(5,198)	(5,368)
Securities Lending Borrower Rebates	(5,873)		(5,873)	(6,840)
Securities Lending Fees	(229)		(229)	(218)
Net Investment Income (Loss)	(158,674)	(11,931)	(170,605)	224,168
Total Additions	(95,577)	3,677	(91,900)	298,637
Deductions				
Benefits Paid to Participants:				
Postemployment Healthcare		4,404	4,404	4,266
Annuities	43,503		43,503	40,202
Back DROP Payments	3,108		3,108	8,404
Refunds of Participant Contributions	688		688	454
Personnel Costs	513	73	586	447
Contractual Services	354	216	570	662
Other		71	71	12
Depreciation	21		21	16
Maintenance and Utilities	289		289	277
Total Deductions	48,476	4,764	53,240	54,740
Net Increase (Decrease)	(144,053)	(1,087)	(145,140)	243,897
Net Assets Held in Trust for Pension/Postemployment Healthcare Benefits, October 1	1,403,629	82,414	1,486,043	1,242,146
Net Assets Held in Trust for Pension/Postemployment Healthcare Benefits, September 30	$ 1,259,576	$ 81,327	$ 1,340,903	$ 1,486,043

The notes to the financial statements are an integral part of this statement.

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City of San Antonio
Texas

Component Units

As set forth in GASB Statement Number 14, "The Reporting Entity", Component Units which by the nature and significance of their relationship with the City is such that their exclusion from the reporting entity's financial statements would be misleading or incomplete and as such are presented discretely with the City's financial statements.

The City has determined that the following component units meet the criteria for discrete presentation as set forth in GASB Statement Number 14:

SAN ANTONIO DEVELOPMENT AGENCY (SADA) *- SADA is responsible for implementing the City's Urban Renewal Program. A majority of the financing is provided from the City in the form of pass-through grants.*

CITY OF SAN ANTONIO EDUCATION FACILITIES CORPORATION (SAEFC) *- SAEFC, formerly the San Antonio Higher Education Authority, was established in accordance with state law for the purpose of aiding non-profit institutions of higher education in providing educational facilities and housing facilities. The corporation is authorized to issue revenue bonds for said purposes on behalf of the City but the bonds are not obligations of the City.*

GREATER KELLY DEVELOPMENT AUTHORITY (GKDA) *- GKDA was established for the purpose of monitoring the proposed closing of Kelly Air Force Base (Kelly) and formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly. The authority is authorized to issue bonds to finance related projects but the bonds are not obligations of the City.*

SAN ANTONIO HOUSING TRUST FOUNDATION, INC. (SAHTF) *- SAHTF is a non-profit corporation established in 1990 for the purpose of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families. In addition, the corporation provides administrative and other support for the operations of the San Antonio Housing Trust Fund, an Expendable Trust Fund of the City.*

SAN ANTONIO LOCAL DEVELOPMENT COMPANY (SALDC) *- SALDC is a non-profit corporation under agreement with the City which administers programs that provide qualifying local businesses with loans. Loan funds administered by SALDC include the Neighborhood Business Revitalization Program, U.S. Department of Commerce Title IX Revolving Loan Fund, Small Business Administration Microloan Program, and a Housing and Urban Development 108 Fund.*

SAN ANTONIO WATER SYSTEM (SAWS) *- SAWS serves as the City's water, wastewater, and stormwater utility. Financing is provided by user fees and the sale of revenue bonds.*

CITY PUBLIC SERVICE (CPS) *- CPS is the City's electric utility, which provides electricity and natural gas to the San Antonio Metropolitan Area. Financing is provided by user fees and the sale of revenue bonds.*

COMPONENT UNIT GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)

	SAN ANTONIO DEVELOPMENT AGENCY	SAN ANTONIO EDUCATION FACILITIES CORPORATION	GREATER KELLY DEVELOPMENT AUTHORITY	SAN ANTONIO HOUSING TRUST FOUNDATION INC.	TOTALS 2001	TOTALS 2000
Assets						
Cash and Cash Equivalents	$ 1,160,360	$ 50,894	$ 10,364,274	$ 1,752,153	$ 13,327,681	$ 6,958,423
Investments				446,284	446,284	445,072
Receivables:						
Notes	1,799,943				1,799,943	2,727,496
Other Accounts			2,782,482	3,130,097	5,912,579	7,946,196
Inventories of Materials and Supplies	235,935				235,935	476,292
Due from Other Governmental Agencies	230,316		2,767,996		2,998,312	7,909,697
General Equipment	190,947	824	134,529,426	6,425	134,727,622	67,246,606
Amount to be Provided for Long-Term Debt			28,607,169		28,607,169	18,787,213
Total Assets	$ 3,617,501	$ 51,718	$ 179,051,347	$ 5,334,959	$ 188,055,525	$ 112,496,995
Liabilities and Fund Equity						
Liabilities:						
Vouchers Payable	$ 21,093	$ 0	$ 7,196,958	$ 7,166	$ 7,225,217	$ 14,006,867
Accounts Payable-Other	246,454	100	715,750	17,800	980,104	867,569
Notes Payable			28,607,169		28,607,169	18,787,213
Accrued Leave Payable	41,272		195,378		236,650	406,194
Deferred Revenue			154,124	723,669	877,793	875,784
Due to Other Governmental Agencies			1,082,796	3,749,430	4,832,226	4,845,691
Total Liabilities	308,819	100	37,952,175	4,498,065	42,759,159	39,789,318
Fund Equity:						
Investment in General Fixed Assets	190,947	824	134,529,426	6,425	134,727,622	67,246,606
Fund Balances:						
Reserved:						
Reserved for Inventories	235,935				235,935	476,292
Reserved for Notes	1,799,943		610,187		2,410,130	2,727,496
Reserved for Other Restricted Purposes	1,081,857		711,800	754,058	2,547,715	520,695
Unreserved:						
Designated			2,233,365		2,233,365	
Undesignated		50,794	3,014,394	76,411	3,141,599	1,736,588
Total Fund Balances	3,117,735	50,794	6,569,746	830,469	10,568,744	5,461,071
Total Fund Equity	3,308,682	51,618	141,099,172	836,894	145,296,366	72,707,677
Total Liabilities and Fund Equity	$ 3,617,501	$ 51,718	$ 179,051,347	$ 5,334,959	$ 188,055,525	$ 112,496,995

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)

	SAN ANTONIO DEVELOPMENT AGENCY	SAN ANTONIO EDUCATION FACILITIES CORPORATION	GREATER KELLY DEVELOPMENT AUTHORITY	SAN ANTONIO HOUSING TRUST FOUNDATION INC.	TOTALS 2001	TOTALS 2000
Revenues						
Intergovernmental	$ 3,495,510	$ 0	$ 10,812,053	$ 1,023,327	$ 15,330,890	$ 31,981,811
Charges for Services	292,201	25,500	14,033,538		14,351,239	12,323,114
Miscellaneous:						
Sales			1,702,749		1,702,749	6,500,000
Recovery of Expenditures			9,758,645		9,758,645	7,516,319
Other			1,828,160		1,828,160	
Interest	87,561	715	563,207	192,442	843,925	2,479,035
In-Kind Contributions			260,908		260,908	269,804
Total Revenues	3,875,272	26,215	38,959,260	1,215,769	44,076,516	61,070,083
Expenditures						
Urban Redevelopment and Housing	4,122,413			898,543	5,020,956	11,206,339
Economic Development and Opportunity		2,557	42,559,181		42,561,738	49,167,649
Total Expenditures	4,122,413	2,557	42,559,181	898,543	47,582,694	60,373,988
Excess (Deficiency) of Revenues Over (Under) Expenditures	(247,141)	23,658	(3,599,921)	317,226	(3,506,178)	696,095
Other Financing Sources						
Proceeds from Notes and Loans			8,613,851		8,613,851	3,709,061
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(247,141)	23,658	5,013,930	317,226	5,107,673	4,405,156
Fund Balances, October 1 as Previously Reported	3,694,509	27,136	392,668	513,243	4,627,556	1,055,915
Prior Period Adjustment	(329,633)		1,163,148		833,515	
Beginning Fund Balance as Restated	3,364,876	27,136	1,555,816	513,243	5,461,071	1,055,915
Fund Balances, September 30	$ 3,117,735	$ 50,794	$ 6,569,746	$ 830,469	$ 10,568,744	$ 5,461,071

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2001
(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Assets					
Current Assets					
Cash and Cash Equivalents	$ 2,361,679	$ 0	$ 20,902,000	$ 23,263,679	$ 7,626,715
Investments		21,506,960	183,273,000	204,779,960	126,090,742
Receivables:					
Other Accounts	200,000	23,397,841	185,575,000	209,172,841	130,200,687
Notes	2,632,655			2,632,655	3,097,996
Accrued Interest	10,654	484,162		494,816	391,997
Due from Other Governmental Agencies	31,756			31,756	18,797
Inventories		4,326,002	97,746,000	102,072,002	106,011,421
Prepaid Expenses		1,751,229	26,583,000	28,334,229	22,016,759
Total Current Assets	5,236,744	51,466,194	514,079,000	570,781,938	395,455,114
Restricted Assets					
Debt Service Accounts:					
Cash and Cash Equivalents		344,502	40,216,000	40,560,502	2,977,094
Investments			32,741,000	32,741,000	
Construction Accounts:					
Cash and Cash Equivalents		34,889,002		34,889,002	204,016
Investments		101,786,292		101,786,292	53,121,630
Improvement and Contingency Accounts:					
Cash and Cash Equivalents					
Investments			465,206,000	465,206,000	369,716,000
Other Restricted Accounts:					
Cash and Cash Equivalents			1,065,000	1,065,000	667,000
Investments		10,749,588	212,699,000	223,448,588	159,456,783
Total Restricted Assets		147,769,384	751,927,000	899,696,384	586,142,523
Property, Plant and Equipment					
Land		44,918,163		44,918,163	34,935,056
Utility Plant in Service		1,777,147,226	5,829,614,000	7,606,761,226	7,263,415,301
Machinery and Equipment	43,904	98,158,264		98,202,168	89,592,097
Construction in Progress		319,250,658	142,090,000	461,340,658	581,022,630
Utility Property Leased			18,647,000	18,647,000	18,713,000
Nuclear Fuel -Net			34,420,000	34,420,000	39,152,000
Held for Future Use			12,599,000	12,599,000	12,599,000
Total	43,904	2,239,474,311	6,037,370,000	8,276,888,215	8,039,429,084
Less: Accumulated Depreciation		616,135,512	1,948,230,000	2,564,365,512	2,377,582,024
Net Property, Plant and Equipment	43,904	1,623,338,799	4,089,140,000	5,712,522,703	5,661,847,060
Prepaid Rent Long Term-Leaseback			595,341,000	595,341,000	
Unamortized Debt Expense		5,809,423	28,189,000	33,998,423	20,753,071
Total Assets	$ 5,280,648	$ 1,828,383,800	$ 5,978,676,000	$ 7,812,340,448	$ 6,664,197,768

(Cont'd)

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2001
(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Liabilities and Fund Equity					
Current Liabilities: (Payable from Current Assets)					
Vouchers Payable	$ 99,324	$ 11,649,610	$ 168,607,000	$ 180,355,934	$ 131,606,897
Sewer Collections Payable		185,844		185,844	208,620
Other Payables and Accruals	40,209	11,958,890		11,999,099	12,414,478
Accrued Payroll		3,685,448		3,685,448	4,267,862
Accrued Leave Payable		4,121,882		4,121,882	3,926,937
Total Current Liabilities	139,533	31,601,674	168,607,000	200,348,207	152,424,794
Current Liabilities: (Payable from Restricted Assets)					
Accrued Bond and Certificate Interest		2,954,459		2,954,459	1,780,866
Current Portion of Bonds and Certificates		25,045,000	71,755,000	96,800,000	91,710,000
Customer Deposits		5,069,352	26,879,000	31,948,352	30,849,097
Contract Retainage Payable		4,061,824		4,061,824	4,735,917
Deferred Lease Revenue			22,561,000	22,561,000	
Customer Advances for Construction		2,734,776	18,771,000	21,505,776	19,510,703
Total Current Liabilities (Payable From Restricted Assets)		39,865,411	139,966,000	179,831,411	148,586,583
Restricted Funds					
Long-Term Liabilities					
Revenue Bonds (Net of Current Portion)		703,410,000	2,597,065,000	3,300,475,000	3,319,800,000
Unamortized Premium		1,704,064		1,704,064	1,815,521
Less: Unamortized Discount		(16,013,355)	(3,485,000)	(19,498,355)	(34,452,127)
Deferred Amount on Refunding		(8,900,519)	(158,691,000)	(167,591,519)	(201,325,097)
Long-Term Debt	591,590			591,590	418,114
Commercial Paper		165,000,000	252,800,000	417,800,000	195,100,000
Deferred Lease Revenue			678,696,000	678,696,000	
Other Payables		3,191,041	164,187,000	167,378,041	139,535,707
Total Long-Term Liabilities	591,590	848,391,231	3,530,572,000	4,379,554,821	3,420,892,118
Total Liabilities	731,123	919,858,316	3,839,145,000	4,759,734,439	3,721,903,495
Fund Equity					
Contributed Capital:					
Local Government	30,000			30,000	30,000
Customers		622,584,562		622,584,562	598,076,317
Total Contributed Capital	30,000	622,584,562		622,614,562	598,106,317
Retained Earnings:					
Reserved for Revenue Bond Retirement		2,195,864		2,195,864	1,106,228
Reserved for Construction		125,073,929		125,073,929	45,824,026
Reserved for Improvement and Contingency			502,771,000	502,771,000	369,716,000
Unreserved	4,519,525	158,671,129	1,636,760,000	1,799,950,654	1,927,541,702
Total Retained Earnings	4,519,525	285,940,922	2,139,531,000	2,429,991,447	2,344,187,956
Total Fund Equity	4,549,525	908,525,484	2,139,531,000	3,052,606,009	2,942,294,273
Total Liabilities and Fund Equity	$ 5,280,648	$ 1,828,383,800	$ 5,978,676,000	$ 7,812,340,448	$ 6,664,197,768

(end of statement)

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Operating Revenues					
Charges for Services	$ 1,143,327	$ 199,883,596	$ 1,338,970,000	$ 1,539,996,923	$ 1,237,477,944
Operating Expenses					
Contractual Services	483,681			483,681	428,347
Commodities	12,972			12,972	9,873
Gas, Electric and Water Systems - Operating and Maintenance		125,083,575	939,152,000	1,064,235,575	784,641,245
Depreciation		49,604,578	197,322,000	246,926,578	211,784,685
Total Operating Expense	496,653	174,688,153	1,136,474,000	1,311,658,806	996,864,150
Operating Income	646,674	25,195,443	202,496,000	228,338,117	240,613,794
Nonoperating Revenues (Expenses)					
Interest and Other		7,341,296	51,609,000	58,950,296	47,788,123
Gain (Loss) on Disposition of Assets		48,235		48,235	(126,394)
Interest and Debt Expense		(35,048,738)	(151,154,000)	(186,202,738)	(185,643,632)
Other Nonoperating Expense		(3,376,419)	(21,961,000)	(25,337,419)	(26,556,499)
Allowance for Funds Used During Construction			12,593,000	12,593,000	13,286,000
Total Nonoperating Revenues (Expenses)		(31,035,626)	(108,913,000)	(139,948,626)	(151,252,402)
Income (Loss) before Extraordinary Item	646,674	(5,840,183)	93,583,000	88,389,491	89,361,392
Extraordinary Item					
Cash Defeasance of Bonds			(2,586,000)	(2,586,000)	
Net Income (Loss)	646,674	(5,840,183)	90,997,000	85,803,491	89,361,392
Retained Earnings, October 1, as Previously Reported	3,868,314	291,781,105	2,048,534,000	2,344,183,419	2,254,826,564
Prior Period Adjustment	4,537			4,537	
Retained Earnings as Restated	3,872,851	291,781,105	2,048,534,000	2,344,187,956	2,254,826,564
Retained Earnings, September 30	$ 4,519,525	$ 285,940,922	$ 2,139,531,000	$ 2,429,991,447	$ 2,344,187,956

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Cash Flows from Operating Activities					
Cash Received from Customers	$ 942,516	$ 198,021,372	$ 1,279,844,000	$ 1,478,807,888	$ 1,248,001,818
Cash Payments to Suppliers for Goods and Services	(406,487)	(71,250,260)	(868,353,000)	(940,009,747)	(719,403,796)
Cash Payments to Employees for Service		(51,634,222)		(51,634,222)	(52,255,125)
Net Cash Provided by Operating Activities	536,029	75,136,890	411,491,000	487,163,919	476,342,897
Cash Flows From Non-Capital Financing Activities					
Cash Payments from Other Governments					538,000
Cash Flows From Capital and Related Financing Activities					
Acquisition and Construction of Capital Assets	(15,837)	(116,922,835)	(248,155,000)	(365,093,672)	(538,217,887)
Proceeds from Issuance of Long-Term Debt	270,000	196,850,869	345,235,000	542,355,869	248,086,547
Principal Payments on Long-Term Debt	(96,524)	(23,760,000)	(67,215,000)	(91,071,524)	(88,210,384)
Interest Paid on Long-Term Debt		(40,733,711)	(151,154,000)	(191,887,711)	(190,154,938)
Debt Issuance Cost		(1,073,214)	(2,254,000)	(3,327,214)	(544,143)
Costs for Cash Defeasance of Debt			(198,160,000)	(198,160,000)	
Principal Payments on Notes		(766,429)		(766,429)	(718,467)
Proceeds from Joint Operations Agreement			72,607,000	72,607,000	15,239,000
Proceeds from Litigation Settlement			10,306,000	10,306,000	18,975,000
Proceeds from Lease Transactions			725,000,000	725,000,000	
Payments for Leaseback Transaction			(637,027,000)	(637,027,000)	
Redemption of Commercial Paper		(8,300,000)		(8,300,000)	(139,700,000)
Payment on Defeasement on Revenue Bonds		(12,570,000)		(12,570,000)	
Capital Contributed for Construction		10,972,130	12,317,000	23,289,130	21,902,115
Proceeds from Sale of Assets		50,444		50,444	31,641
Net Cash Provided by (Used for) Capital and Related Financing Activities	157,639	3,747,254	(138,500,000)	(134,595,107)	(653,311,516)
Cash Flows From Investing Activities					
Purchase of Investment Securities		(261,992,492)	(1,128,871,000)	(1,390,863,492)	(1,152,667,580)
Maturity of Investment Securities		207,571,807	882,285,000	1,089,856,807	1,235,733,000
Principal Collection on Notes	511,474	443,045		954,519	438,423
Loans Disbursed	(489,178)			(489,178)	(672,919)
Interest on Investments		7,235,890	29,040,000	36,275,890	45,158,973
Net Cash Provided by (Used for) Investing Activities	22,296	(46,741,750)	(217,546,000)	(264,265,454)	127,989,897
Net Increase (Decrease) in Cash and Cash Equivalents	715,964	32,142,394	55,445,000	88,303,358	(48,440,722)
Cash and Cash Equivalents, October 1	1,645,715	3,091,110	6,738,000	11,474,825	59,915,547
Cash and Cash Equivalents, September 30	$ 2,361,679	$ 35,233,504	$ 62,183,000	$ 99,778,183	$ 11,474,825

(Cont'd)

The notes to the financial statements are an integral part of this statement.

CITY OF SAN ANTONIO, TEXAS

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COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 646,674	$ 25,195,443	$ 202,496,000	$ 228,338,117	$ 240,613,794
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation		49,604,578	197,322,000	246,926,578	211,784,685
Amortization Expense			15,825,000	15,825,000	18,142,000
Changes in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable			(59,126,000)	(59,126,000)	10,855,000
(Increase) in Other Accounts Receivable	(199,451)	(1,816,703)	(17,961,000)	(19,977,154)	(10,996,478)
(Increase) Decrease in Accrued Revenues	2,587	(164,512)		(161,925)	62,304
(Increase) Decrease in Due from Other Govt. Agencies	(12,959)			(12,959)	8,612
(Increase) Decrease in Inventories		1,074,419	2,865,000	3,939,419	(18,702,547)
(Increase) in Prepaid Expenses		(619,293)	(15,486,000)	(16,105,293)	(4,631,294)
Increase in Vouchers Payable	98,797	2,580,240	56,574,000	59,253,037	18,182,744
Increase (Decrease) in Other Payables	381	(307,068)	27,860,000	27,553,313	9,148,961
Increase (Decrease) in Accrued Payroll		(582,414)		(582,414)	1,429,470
Increase in Accrued Leave Payable		194,945		194,945	387,459
Increase (Decrease) in Customer Deposits		(22,745)	1,122,000	1,099,255	58,187
Net Cash Provided by Operating Activities	$ 536,029	$ 75,136,890	$ 411,491,000	$ 487,163,919	$ 476,342,897
Noncash Investing, Capital and Financing Activities:					
Acquisition and Construction of Capital Assets from Capital Contributions	$ 0	$ 13,505,188	$ 0	$ 13,505,188	$ 17,904,931
Noncash Payment for Water, Reuse, Supply and Sewer Billings to City	$ 0	$ 1,576,658	$ 0	$ 1,576,658	$ 0
Purchase of Water Rights	$ 0	$ 480,000	$ 0	$ 480,000	$ 0

(end of statement)

The notes to the financial statements are an integral part of this statement.

TABLE OF NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB Statement No. 14, "The Reporting Entity". The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 14 outlined below, potential component units were evaluated for inclusion or exclusion in the reporting entity, and further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14) were used in the evaluation of potential component units of the City:

1) Legally separate

2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency

3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.

4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

The criteria outlined above were excerpted from GASB Statement No. 14. For a more detailed explanation of the criteria established by this Statement, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2001, published by GASB, Section 2600. Based upon the application of the criteria outlined above, the following is a brief review of component units included in the reporting entity:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors which is comprised of the City Council of the City.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979 in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors which is comprised of the City Council of the City.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council Members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989 in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund ("Health Fund"), was created to provide these postemployment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine member board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by retirees on behalf of their dependents. City and retiree contribution rates are established pursuant to Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors which is comprised of the City Council of the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992 with the creation of the San Antonio Water System (SAWS) which included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

City Public Service

City Public Service (CPS), the City's utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas as it deems advisable, subject to approval by the City Council and the Federal Agency which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA), was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two year terms.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base. In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA has the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly Air Force Base (Kelly). The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City. GKDA is governed by an eleven member Board of Directors appointed by the City Council.

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, an Expendable Trust Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low and moderate income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven member Board of Directors appointed by the City Council.

San Antonio Local Development Company, Inc.

The San Antonio Local Development Company, Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. SALDC was formed to participate in the Neighborhood Business Revitalization Program (NBRP) which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD).

SALDC, under agreement with the City, administers and operates a revolving loan fund, NBRP that provides qualifying local businesses with loans under economic development programs administered by the SBA. SALDC also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program and a HUD 108 Fund. SALDC is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: Alex Hinojosa
Telephone No. (210) 704-7410

City Public Service
P. O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Patricia M. Major, CPA, CCM
Telephone No. (210) 353-2455

San Antonio Development Agency
115 E. Travis, Suite 800
San Antonio, Texas 78205
Contact Person: Felix Lopez
Telephone No. (210) 225-6833 ext. 203

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226
Contact Person: Paul Roberson
Telephone No. (210) 362-7800

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212
Contact Person: John Kenny
Telephone No. (210) 735-2772

San Antonio Local Development Company, Inc.
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Blended Component Units

San Antonio Health Facilities Development Corporation
P. O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Industrial Development Authority
P. O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205
Contact Person: Paul Villareal
Telephone No. (210) 220-1339

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Larry Reed
Telephone No. (210) 534-3262

San Antonio Texas Municipal Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as significant discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into three broad fund categories, seven generic fund types, and two account groups as follows:

1. Governmental Funds

General Fund - The General Fund of the City accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund type.

3. Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension Trust, Retiree Health Care Trust, Expendable Trust and Agency Funds. Pension Trust and Retiree Health Care Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are self-balancing groups of accounts that are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

General Fixed Assets Account Group - The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations. Public domain ("infrastructure") improvements, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets. No depreciation is recorded for general fixed assets.

General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to account for long-term liabilities expected to be financed from governmental funds.

C. Basis of Accounting

Governmental Funds, Expendable Trust Funds and Agency Funds are accounted for on the modified accrual basis. Revenues are recognized in the accounting period in which they become available and measurable. Gross receipts and sales taxes are considered measurable when the underlying transaction has occurred and the resources are available. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Governmental Funds and Expendable Trust Funds are accounted for on a spending or "current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "current financial resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatment is also applied to governmental fund inventories and prepaids to indicate that they do not represent "current financial resources", even though they are a component of net current assets. Such amounts are generally offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

Proprietary, Pension Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. These Funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund type equity (net assets) is segregated into contributed capital and retained earnings components. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net assets for (fiduciary funds) and retained earnings (all others).

The City, for its proprietary activities, applies all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989 in accordance with the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The City and its discretely presented proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

D. Encumbrance Accounting

Encumbrances, which represent commitments for open purchase orders or unperformed contracts for goods or services, are reported as a reservation of fund balance in the General Fund, Special Revenue Funds, Capital Projects Funds, and Expendable Trust Funds. These outstanding encumbrances serve as authorization for expenditures in the subsequent year.

Encumbrances are reflected in the General Fund and Special Revenue Funds Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balance--Budget and Actual to provide a more meaningful comparison with budget but are not considered expenditures in the financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. GASB Implementations

The City will evaluate and implement in the appropriate fiscal years the following new accounting standards for those statements issued by the Governmental Accounting Standards Boards with effective dates beginning after October 1, 2001. There were several new GASB implementations that occurred for fiscal year 2001, as well as several that will occur in fiscal year 2002.

During fiscal year 2001, the City implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33".

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", is effective for periods beginning after June 15, 2001 and will be implemented for fiscal year 2002. Statement No. 34 also provides a transition period for the retroactive reporting requirements associated with general infrastructure assets. Retroactive reporting of general infrastructure assets is required for periods beginning after June 15, 2005.

GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", which amends certain information disclosed in Statement No. 34, is effective for periods beginning after June 15, 2001, and will be implemented simultaneously with Statement No. 34.

GASB Statement No. 38, "Certain Financial Statement Note Disclosures" establishes and modifies certain footnote disclosures. Statement No. 38 is effective for periods beginning after June 15, 2001, and will be implemented simultaneously with Statement No. 34.

The City has not fully determined the effects that the implementation of Statement No. 34, No. 37 and No. 38 will have on the City's financial statements or the financial statements of component units.

F. Budgets

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors. During the year, several supplementary appropriations which were not considered material were made and all amendments complied with City Charter requirements.

The City prepares an annual budget for its General Fund, Special Revenue Funds (with the exception of the following Special Revenue Funds: HOME Program, Categorical Grant-In Aid, Housing and Urban Development 108 Loan Program, Community Development Program, and Community Services), and the Debt Service Fund. In addition, budgets are not adopted by the City for the San Antonio Industrial Development Authority or the San Antonio Health Facilities Development Corporation, which have been presented as blended component units based on GASB Statement No. 14.

Budgets for the following Special Revenue Funds: HOME Program, Categorical Grant-In Aid, Housing and Urban Development 108 Loan Program, Community Development Program, and the Community Services Fund as well as the Capital Projects Funds are adopted on a project basis rather than on an annual basis. Appropriations in these funds remain open and carryover to succeeding years until the related expenditures are made or until they are modified or canceled.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgets (Continued)

The annual budgetary data reported for the General Fund, Special Revenue Funds, and Debt Service Funds represent the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

The following provides a summary of the City's budgeting policy with respect to Special Revenue Funds based on actual fiscal year 2001 results:

Special Revenue Funds

	Actual		
	Revenues	Expenditures	Other Sources
Budgeted on an annual basis	$120,222	$123,410	$13,569
Less: Encumbrances		(3,492)	6,680
Budgeted on a project basis	190,167	190,261	8,162
Total Special Revenue Funds	$310,389	$310,179	$28,411

The budget is prepared using the modified accrual basis of accounting except for the recognition of encumbrances within the expenditure appropriations.

G. Cash, Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories, operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. In its investment portfolio, the only derivative products utilized by the City are callable bonds. As of September 30, 2001, the City's investment portfolio did not contain any other derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Investments are stated at fair value for the Fire and Police Pension Trust Fund and the Fire and Police Retiree Health Care Fund in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments which had a remaining maturity of one year or less at the time of purchase is to report those investments at amortized cost which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Property Taxes

The City recognizes revenues from property taxes in the period for which they were levied. Property taxes receivable include taxes due and amounts expected to be collected within sixty days after the period end, along with related interest and penalties. For additional disclosure related to property taxes, see Note 2.

I. Inventories

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

J. In-Kind Contributions

In-Kind contributions, which include contributions provided by private organizations and local governments, are used to match the requirements of federal and state grants. These in-kind contributions are recorded as revenues and expenditures in the individual grants in accordance with the respective grant's legal requirements and are valued at estimated fair market value at the date of receipt.

K. Fixed Assets and Depreciation

1. City of San Antonio

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation on all exhaustible fixed assets of the City used by proprietary funds is charged as an expense with accumulated depreciation being reported on the balance sheet. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives applied are as follows:

Buildings	25 – 40 years
Improvements other than buildings	10 – 40 years
Machinery and equipment	2 – 10 years

Interest costs incurred during the construction of Enterprise Fund fixed assets are capitalized in the cost of the assets being constructed based upon guidelines established by the Statement of Financial Accounting Standards No. 34, as amended by Financial Accounting Standards Statement No. 62.

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment material and labor, indirect costs, including general engineering, labor, equipment, and material overhead, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates which approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to cost in excess of $250 and to require thirty days or more to complete. Proceeds from customers, litigation settlements, and insurance recoveries to partially fund construction expenditures are credited against utility plant costs.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property. Depreciation as a percentage of total utility plant was 3.35 % in 2001.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fixed Assets and Depreciation (Continued)

2. City Public Service (CPS) (Continued)

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. This charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

3. San Antonio Water Systems (SAWS)

The SAWS utility plant in service is recorded on the basis of cost. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant in service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' utility plant is depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. The following estimated average useful lives are used in providing for depreciation of the SAWS utility plant:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	20 - 50 years
Computer equipment	10 years
Software	3 - 5 years

L. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

M. Compensated Absences

Annual leave pay is accrued as earned for City non-uniformed employees and uniformed fire and police employees. In addition, the City's uniformed fire and police employees accrue sick leave pay, holiday pay and bonus pay.

The City's uniformed police employees also accrue compensatory time pay. The current portion of the liability resulting from the accrual of these compensated absences related to governmental fund types is recorded in the respective governmental fund while the long-term portion is accounted for in the General Long-Term Debt Account Group. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Insurance

Activity for the City's self-insurance programs is recorded in the Self-Insurance Fund Group. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included in the Self-Insurance Funds.

The City is insured for property and casualty liability. As of the fiscal year end, Travelers Insurance insured the City's property, while the North River Insurance Company of New Jersey provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the North River Insurance Company at September 30, 2001. The City records all worker's compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for Insurance Companies. For a more detailed explanation of the City's self-insurance programs, see Note 13.

O. Amortization of Federally Contributed Capital

Contributed capital, related to fixed assets acquired by federal or state grants, is being amortized over periods equal to the lives of assets purchased from such contributions of capital.

P. Fund Equity

Reservations of equity represent amounts that are not appropriable or legally segregated for a specific purpose. Designations of equity represent tentative plans identified by management that are subject to change. Designations are utilized in the City's governmental funds for amounts which have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. The proprietary fund's contributed capital represents equity acquired through grants and capital contributions from customers and other funds.

Q. Revenue Recognition

Governmental-type funds record revenues on the modified accrual basis of accounting. That is, revenues are recorded when they are considered susceptible to accrual, meaning that the revenues are both measurable and available to finance current operations. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are considered susceptible to accrual. Proprietary-type funds record revenues when earned.

CPS revenues are recognized as they are billed on a cycle basis. CPS rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis and flow of economic resources measurement focus.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Nuclear Decommissioning

In July 1990, CPS together with the other owners of the STP filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1994, a review of decommissioning costs was conducted, which showed CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

Beginning in 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2001, CPS had accumulated approximately $119,800 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of $61,000 at December 31, 2000. Based upon the 1994 decommissioning study, the annual levelized funding into the trust of $9,400 for 2001 was expensed by CPS. As of January 2001, CPS increased its annualized funding amount to $15,900.

S. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

T. Other Budget Disclosures

Excesses of expenditures, transfers and encumbrances over appropriations occurred as follows:

Excesses of Expenditures, Transfers and Encumbrances Over Appropriations

Fund/Expenditures	Appropriations	Expenditures, Transfers and Encumbrances	Excess Expenditures, Transfers and Encumbrances over Appropriations
Special Revenue Funds:			
Emergency Medical Service Fund	$ 35,336	$ 35,567	$ 231
Debt Service Fund	$ 94,920	$ 95,333	$ 413

The excess expenditures and transfers over appropriations were fully offset by excess actual revenues or fund balances. No deficit fund balances resulted from these excesses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

V. Restatement of Prior Year Balances

For fiscal year 2001, the City implemented GASB Statement No. 33 "Accounting and Financial Reporting for Non Exchange Transactions," as amended by GASB Statement No. 36 "Recipient Reporting for Certain Shared Nonexchange Revenues," which resulted in the restatement of certain prior year balances for the City's General Fund. With regard to fiscal year 2000, the following balances were restated: beginning fund balance was increased by $11,499; sales tax revenue was increased by $1,314; sales tax collection expense was increased by $256; and accrued revenue was increased by $12,557. In addition, the fiscal year 2001 beginning fund balance was increased by $12,557.

The General Long-Term Debt Account Group fiscal year 2000 balances were also restated. The restatement of $7,049 to the amount to be provided for General Long-Term Debt and the Convention Center Bonds Payable lines reflect the accretion of interest over the life of the City's capital appreciation bonds.

The City, in preparation of implementing GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" in fiscal year 2002, created a new special revenue fund, the Community Services Special Revenue Fund, to account for various funds previously classified as Expendable Trust Funds. Funds previously presented as Memorial and Gifts within the Expendable Trust Fund have been properly reclassified into the Community Services Fund, with the exception of the Carver Cultural Center Endowment Fund, which remains classified as an Expendable Trust Fund. The creation of the Community Services Fund will allow for a smoother transition into GASB Statement No. 34 requirements as it relates to fund classifications. This resulted in an increase to the beginning Special Revenue Fund balance in the amount of $2,425 and a corresponding decrease in the Expendable Trust Fund.

During the year, management of the San Antonio Development Agency, Greater Kelly Development Authority and San Antonio Local Development Corporation, discretely presented component units, discovered certain errors and adjustments in their financial statements as of September 30, 2000. For fiscal year 2001, Governmental and Proprietary fund balances have been increased by $834 and $4, respectively.

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(amounts are expressed in thousands)

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and becomes delinquent the following February 1. Property tax revenues are recognized when they become available which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. The amount of delinquent taxes collected in October and November, 2001 was not material to these financial statements and, therefore, have not been recognized as revenue. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivables, net of allowances for uncollectible amounts, are offset by deferred revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2001 was $0.57979 per $100 taxable valuation, which means that the City has a tax margin of $1.92021 per $100 taxable valuation and could raise an additional $691,915 per year based on the net taxable valuation of $36,033,321 before the limit is reached.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and Repurchase Agreements with original maturities of ninety days or less, summarized by fund type and included in the combined balance sheet as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawn fund and as inter-fund receivables of the General Fund.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository.

The City entered into Repurchase Agreements in connection with the investment of certain bond proceeds. Although these Repurchase Agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined balance sheet.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each fund's pro rata share of these longer term investments is combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined balance sheet, as of September 30, 2001.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments which have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The change in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $537 as of fiscal year end. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund, a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Fund are reported at fair value and include: corporate bonds, preferred stock, U.S. Treasury securities, U.S. Government Agency securities, notes, mortgages and contracts, and real estate. Equity and fixed income securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established market value are reported at estimated fair value. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more of plan net assets.

The Pension Fund has entered into an agreement with its custodian bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodian bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities be maintained by the custodian bank. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2001, the Pension Fund had lending arrangements outstanding with a total market value of $84,562 which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $86,510 is recorded in the accompanying statements. Net income for the year ended September 30, 2001 under the securities lending arrangement was $434.

The Pension Fund has only limited involvement with derivative and other structured financial instruments and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity and (5) attention to credit risk of the issuer. With less than 1% of total market value invested in derivatives and other structured financial instruments, the Pension Fund has been cautious concerning its aggregate exposure. The fair value of structured financial instruments held for the Pension Fund during fiscal year ended September 30, 2001 was approximately $94,346.

The Pension Fund periodically participates in options and futures in order to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Unrealized appreciation on these options and futures of approximately $51,224 is included in net appreciation (depreciation) in fair value of investments at September 30, 2001.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Fire and Police Retiree Health Care Fund Board of Trustees administer investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in postemployment healthcare plan net assets. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more of plan net assets.

The investment policies of SAWS and CPS, the City's significant discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. In accordance with the provisions of GASB Statement No. 31 the investments of SAWS and CPS are stated at amortized cost, which approximates fair value as of the fiscal year end of each entity. The difference between amortized cost and fair value was deemed immaterial.

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law. SAWS general depository agreement does not require SAWS to maintain an average monthly balance.

CPS cash deposits at January 31, 2001 were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name. CPS' cash book values were approximately \$6,730 at January 31, 2001, and CPS' bank balances were \$24,113 at year end.

CPS reports the STP Decommissioning Trust Investments at fair value since they mature more than one year from date of purchase. CPS recorded an adjustment in 2001 to report all investments in other fund portfolios with original maturities of greater than one year from their purchase date at fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The current year increase in fair value of \$1,340 has been included in nonoperating income for 2001. All other investments are stated at amortized cost, which approximates fair value. These investments will mature within one year from their purchase date. The specific identification method is used to determine cost in computing gain or loss on sales of securities. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year.

At January 31, 2001, CPS' investments (excluding the Decommissioning Trust) were all in U.S. Government or Government Agency obligations and were held in book entry form by the Federal Reserve Bank in the name of the safekeeping depository for the account of CPS. The scope of allowable CPS investments as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance and State Law, includes U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments. However, CPS' current investment strategy limits investments primarily to direct obligations of the U.S. Government or its agencies and money market mutual funds. The carrying value of investments were \$830,787 with a total fair value of \$838,122 at January 31, 2001.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

At January 31, 2001, CPS' investments in the Decommissioning Trust were held by an independent trustee. Trust investments are generally limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State Law. Investment securities were carried at fair values of \$118,496 for 2001. These funds included U.S. Treasury Strips, purchased with the intent of holding until maturity, with a fair value of \$41,013 for 2001. They are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Combined cash and cash equivalents and investments are presented below as of year end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents and Investments

	City	SAWS[1]	CPS[2]
Cash and Cash Equivalents	\$ 350,082	\$ 35,233	\$ 62,183
Security Lending Collateral - Cash and Cash Equivalents	86,510		
Investments	1,848,314	148,637	949,283
Less: Investments with Original Maturities of Less Than Ninety Days Included in Cash Equivalents	(281,757)	(14,594)	(55,364)
Total	\$2,003,149	\$ 169,276	\$ 956,102

[1]For the period ended May 31, 2001
[2]For the period ended January 31, 2001

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

	City	SAWS[1]	CPS[2]
Totals from combined balance sheet			
Cash and Cash Equivalents	$ 319,924	$	$ 20,902
Security Lending Collateral - Cash and Cash Equivalents	86,510		
Investments	1,522,236	21,507	183,273
Restricted Cash and Cash Equivalents	30,158	35,233	41,281
Restricted Investments	44,321	112,536	710,646
Total Cash, Cash Equivalents and Investments	$ 2,003,149	$ 169,276	$ 956,102

[1]For the period ended May 31, 2001
[2]For the period ended January 31, 2001

The composition of Cash and Cash Equivalents included in the financial statements for the City and its significant discretely presented Component Units as of the respective year ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$ (5,111)	$ 20,613	$ 6,730
Investments with Original Maturities of Less than Ninety Days	281,757	14,594	55,364
Cash with Pension/Retiree Healthcare Fiscal Agents	73,150		
Cash with Fiscal Agents	57		
Cash with Bond Paying Agents	9		
Cash with Other Financial Agents	33		
Petty Cash Funds	187	26	89
Total Cash and Cash Equivalents	$ 350,082	$ 35,233	$ 62,183

[1]For the period ended May 31, 2001
[2]For the period ended January 31, 2001

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes. Cash with bond paying agents are held to cover matured bonds and coupons which have been offset by a corresponding liability in the City's financial statements.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS and CPS are categorized by credit risk as follows:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits With Financial Institutions	$ (5,111)	$ 17,120	$ 17,120	$ 0	$ 0
Deposits With Agents	73,249	73,249	73,207	42	
SAWS Deposits	20,613	23,618	23,618		
CPS Deposits With Financial Institutions	6,730	24,113	24,113		

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio are classified as Category 1 and cash with Bond Paying Agents is classified as Category 2. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $86,510 which is not categorized for credit risk as it had been invested in a securities lending collateral investment pool.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of risk assumed:

Total Investments By Category

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 139,818	$	$	$ 139,818	$ 139,818
Preferred Stock	203			203	203
Common Stock	668,703			668,703	668,703
U.S. Treasury & Government Agency Securities	558,699			558,699	561,537
Repurchase Agreements		17,252		17,252	17,252
Total Categorized Investments	1,367,423	17,252		1,384,675	1,501,933
Investments not Categorized:					
Money Market Mutual Fund				164,444	164,444
Notes, Mortgages, Contracts				128,623	128,623
Real Estate Investments				56,152	56,152
Venture Capital Partnerships and Other Alternative Investments				114,420	114,420
Total City	$ 1,367,423	$ 17,252	$	$ 1,848,314	$ 1,851,152
SAWS:					
First Union Bank Held in Escrow	$	$ 24,443	$	$ 24,443	$ 24,443
U.S. Treasury & Government Agency Securities	124,194			124,194	124,192
Total SAWS	$ 124,194	$ 24,443	$	$ 148,637	$ 148,635
CPS:					
U.S. Treasury & Government Agency Securities	$ 949,283			$ 949,283	$ 956,618
Total CPS	$ 949,283	$	$	$ 949,283	$ 956,618

4. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in the General Fixed Assets Account Group:

Summary of Changes in General Fixed Assets Account Group

	Balance Oct. 1, 2000	Additions	Deletions/ Transfers	Balance Sept. 30, 2001
Land and Land Improvements	$ 337,436	$ 29,072	$	$ 366,508
Buildings	450,211	195		450,406
Streets and Bridges	483,302	20,156		503,458
Storm Drainage and Flood Prevention	353,062	7,355		360,417
General City Equipment	144,040	19,834	1,963	161,911
Construction-in-Progress	440,329	96,764	31,478	505,615
Total General Fixed Assets	$ 2,208,380	$ 173,376	$ 33,441	$ 2,348,315

Construction-in-progress related to the General Fixed Assets Account Group is comprised of the following:

Construction-In-Progress: General Fixed Assets Account Group

	Project Authorization	Expended to Sept. 30, 2001	Committed	Required Future Financing
Buildings	$ 34,517	$ 29,286	$ 5,231	None
Streets and Bridges	180,804	119,710	61,094	None
Storm Drainage and Flood Prevention	143,488	109,138	34,350	None
Improvements Other Than Buildings	271,430	247,481	23,949	None
Total	$ 630,239	$ 505,615	$ 124,624	None

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(amounts are expressed in thousands)

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

A summary of Proprietary Fund Type and Fiduciary Fund Type property, plant and equipment at September 30, 2001 (except as noted) follows:

Proprietary and Fiduciary Fund Type Property, Plant and Equipment

	Airport System	Parking Facilities	Golf Course System	Solid Waste System	Total Primary Government Enterprise Funds	Internal Service	Fiduciary Fund	Total Primary Government	Gas and Electric System (CPS)[1]	San Antonio Water System (SAWS)[2]
Computer Equipment	$ 663	$ 119	$ 37	$ 162	$ 981	$ 5,717	$ 76	$ 6,774	$ 0	$ 0
Land	2,970	8,125	2,579	893	14,567			14,567		44,918
Buildings	112,133	18.985	4,016	46	135,180	178	491	135,849		
Improvements Other Than Buildings	145,824	1,639	5,522	3,025	156,010	194		156,204		
Gas and Electric System									5,848,261	
Water System										1,777,147
Machinery and Equipment	9,011	691	2,755	3,480	15,937	92,257	66	108,260		98,158
Construction-In-Progress	67,504	8.557		410	76,471			76,471	142,090	319,251
Held for Future Use									12,599	
Nuclear Fuel, at Amortized Cost									34,420	
Total	338,105	38,116	14,909	8,016	399,146	98,346	633	498,125	6,037,370	2,239,474
Less: Accumulated Depreciation	111,827	8,128	5,082	3,123	128,160	56,264	254	184,678	1,948,230	616,135
Net Property, Plant and Equipment	$ 226,278	$ 29,988	$ 9,827	$ 4,893	$ 270,986	$ 42,082	$ 379	$ 313,447	$ 4,089,140	$ 1,623,339

The City, SAWS and CPS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62 issued by the Financial Accounting Standards Board. SAWS and CPS capitalized construction period interest in the amount of $6,859 and $12,593, respectively, and the City of San Antonio capitalized no interest for construction.

[1] For the period ended January 31, 2001

[2] For the period ended May 31, 2001

(amounts are expressed in thousands)

5. DUE (TO) FROM OTHER FUNDS

The following is a summary of interfund receivables and payables for the City as of September 30, 2001.

Summary Table of Interfund Receivables and Payables at September 30, 2001

	Due From Other Funds	Due To Other Funds
General Fund	$ 24,539	$ 453
Special Revenue Funds:		
Convention Center Expansion		19
Alamodome		130
Special Revenue Reserve		3
Street Maintenance and Improvements	765	
Public Health Support Revenue Fund		22
Nelson Wolff	130	47
International Center		12
Stormwater Operations	255	
Community Services	587	1253
Home Program		270
Categorical Grants-In-Aid Fund	313	22,095
Community Development Program Fund		130
Total Special Revenue Funds	2,050	23,981
Debt Service Funds	228	68
Capital Projects Funds:		
Improvement Projects		410
Convention Center Expansion	19	
Total Capital Projects Funds	19	410
Enterprise Funds:		
Airport System Fund	926	1,109
Parking Facilities	3	
Golf Course System		365
Solid Waste		210
Total Enterprise Funds	929	1,684
Internal Service Funds:		
Other Internal Services	443	1,149
Information Services	119	
Self Insurance	9	
Total Internal Service Funds	571	1,149
Fiduciary Agency Funds:		
Tax Clearance Account		228
911 District Fund		67
Special Events Security Trust Fund		296
Total Agency Funds		591
Total	$ 28,336	$ 28,336

(amounts are expressed in thousands)

6. LONG-TERM DEBT

A. Primary Government (City)

1. General Long-Term Debt

The City maintains a proactive debt management policy. The City's debt management plan employs a comprehensive analysis of the City's financial resources and capital improvement costs. Incorporated into the plan are long-term cash flow projections for the City's infrastructure needs, annexation plans, growth in assessed valuations and the revenue generating capacity of certain enterprise and self-supporting operations. The objective of the planning process is to minimize the cost of funds, minimize the impact on taxes and/or rate structures and maximize the benefits of capital improvements. Consistent with overall debt management is maintaining strong credit-worthiness. Routine, comprehensive financial analysis and strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its Aa2/AA+/AA+ bond rating by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively as of September 30, 2001.

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2001. In November 2000, the City issued the following: $15,615 General Improvement Bonds, Series 2000A; $8,810 Combination Tax and Revenue Certificates of Obligation, Series 2000A; $1,755 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B; and $6,415 Combination Tax and Revenue Certificates of Obligation, Series 2000C. Additionally, in November 2000, the City authorized the implementation of a $35,000 Sales Tax Commercial Paper Program, Series A. As of September 30, 2001 the City has issued $32,700 of the Sales Tax Revenue and Commercial Paper Notes. The bonds are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations. Commercial Paper Notes are supported by an irrevocable direct pay letter of credit dated December 5, 2000 to be issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch ("Helaba" or the "Bank"); as authorized by the Note Ordinance.

The General Improvement Bonds, Series 2000A will be utilized to fund capital improvement projects to include street improvements, drainage, flood control, park improvements, library improvements, and public safety improvements. The Series 2000A Bonds are retired serially in the years 2003 through 2021 and bear interest rates ranging from 5.250% to 5.375%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2000A will be utilized to fund capital improvements to include public safety, including renovations to existing fire stations and construction of new fire stations; street, sidewalk, and drainage improvements; acquisition of land and rights-of-way for public purposes, and costs related to the implementation of a new financial management system. The certificates are retired serially in the years 2003 through 2021 and bear interest rates ranging from 5.250% to 5.375%.

The Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B will be utilized to fund capital improvement projects to construct, acquire, equip, renovate, and repair public works to include improvements to municipally-owned facilities including the Alameda Theatre. The Series 2000B certificates are retired serially in the years 2003 through 2021 and bear interest rates ranging from 7.450% to 7.550%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2000C will be utilized to fund capital improvements to redevelop areas along Houston and Presa streets located in the center of the downtown business district. The certificates are retired serially in the years 2004 through 2020 and bear interest rates ranging from 5.000% to 5.500%.

Sales Tax Commercial Paper Notes, Series A have been issued to provide for the planning, acquisition, establishment, development, construction, and renovation of the Parks Development and Expansion Venue Project. (See Note 7 Commercial Paper Program).

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

On November 30, 2000, a revolving line of credit not to exceed $1,500, was established with the American Communities Fund (ACF) of the Fannie Mae Corporation, in order for the City to acquire and own properties and move homes that can be renovated for the purpose of selling the newly renovated homes at affordable prices. As of September 30, 2001 the line of credit had not been utilized.

Prior Years Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain General Obligation Bonds, Revenue Bonds and Certificates of Obligation. The refunding bonds were utilized to purchase securities which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow funds in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City, therefore, they are not included in the City's financial statements. On September 30, 2001, $69,394 of previously defeased bonds were outstanding.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2001 for debt reported in the General Long-Term Debt Account Group.

General Long-Term Debt Account Group

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2000	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2001
General Obligation Bonds							
1988 Refdg.	$ 132,978	2006	7.250-7.400	$ 4,008	$	$	$ 4,008
1991	60,645	2001	8.625	1,575		1,575	0
1992 Refdg.	380,540	2013	5.200-5.750	272,955		15,875	257,080
1993 Refdg.	92,165	2014	4.000-8.000	82,305		5,265	77,040
1994	30,450	2004	5.800-6.000	4,950		1,100	3,850
1996	35,330	2015	5.100-5.250	29,775		1,300	28,475
1996A Refdg.	82,235	2016	4.375-6.000	76,895		1,330	75,565
1996B Refdg.	6,030	2008	6.350-6.700	4,920		485	4,435
1998 Refdg.	30,855	2018	4.500-5.000	30,145		750	29,395
1998A Refdg	53,950	2008	5.500-6.000	51,175		6,915	44,260
1998A Refdg.	47,740	2019	4.000-5.250	47,650		825	46,825
1999	12,000	2020	5.375-6.000	12,000			12,000
2000	27,565	2020	4.500-5.000	27,565			27,565
2000A	15,615	2021	5.250-5.375		15,615		15,615
Subtotal	$ 1,008,098			$ 645,918	$ 15,615	$ 35,420	$ 626,113
Tax –Exempt Commercial Paper							
Series 2000	$ 15,000	2020	5.000	$ 15,000	$	$	$ 15,000
Series 2001	32,700	2004	4.000		32,700		32,700
Subtotal	$ 47,700			$ 15,000	$ 32,700	$	$ 47,700
Tax –Exempt Certificates of Obligation							
Series 1986A	$ 22,600	2001	6.700	$ 1,410	$	$ 1,410	$ 0
Series 1988	4,400	2002	7.300	525		250	275
Series 1991	10,075	2001	6.250	750		750	0
Series 1992	17,655	2013	5.200-5.750	9,080		1,460	7,620
Series 1994	9,900	2004	5.750-6.000	1,635		375	1,260
Series 1996	8,415	2015	5.200-5.400	7,115		310	6,805
Series 1996A	12,515	2016	4.375-5.375	10,820		465	10,355
Series 1998	4,315	2018	4.625-5.000	4,030		300	3,730
Series 1998A	36,535	2019	4.000-5.250	35,085		1,500	33,585
Series 1999	4,230	2020	5.750-6.000	4,230			4,230
Series 2000	8,490	2020	4.500-5.000	8,490			8,490
Series 2000A	8,810	2021	5.250-5.375		8,810		8,810
Series 2000C	6,415	2020	5.000-5.500		6,415		6,415
Subtotal	$ 154,355			$ 83,170	$ 15,225	$ 6,820	$ 91,575
Taxable Certificates of Obligation							
Series 1988	$ 6,700	2008	9.400-9.500	$ 4,300	$	$ 375	$ 3,925
Series 1996	6,160	2015	6.550-7.125	5,300		200	5,100
Series 1996B	7,375	2016	6.350-7.250	6,470		240	6,230
Series 2000B	1,755	2021	7.450-7.550		1,755		1,755
Subtotal	$ 21,990			$ 16,070	$ 1,755	$ 815	$ 17,010
Hotel Occupancy Tax Revenue Bonds[2]							
Series 1996	$ 182,012	2026	4.700-5.700	$ 181,603	$	$ 830	$ 180,773
Total	$ 1,414,155			$ 941,761	$ 65,295	$ 43,885	$ 963,171

[1]A portion of the outstanding principal applicable to certain series of bonds was advance refunded, prior to maturity, by the Series 1988, 1992, 1993, 1996A, 1996B, 1998 and 1998A refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were utilized to purchase securities, guaranteed by the United States of America, which were irrevocably deposited into escrow accounts whose principal is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payment on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City.

[2]A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 were sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be payable only at maturity or redemption. The interest accreted through Fiscal Year 2001, resulted in an increase of $8,939 in Revenue Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation, Tax Exempt Commercial Paper, Certificates of Obligation, and Hotel Occupancy Tax Revenue general long-term debt outstanding as of September 30, 2001, are as follows:

Principal and Interest Requirements

Year Ending September 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Tax Exempt Commercial Paper Principal	Tax Exempt Commercial Paper Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Hotel Occupancy Tax Revenue Bonds Principal	Hotel Occupancy Tax Revenue Bonds Interest	Total Annual Requirements
2002	$ 42,455	$ 32,915	$ 12,370	$ 1,638	$ 6,185	$ 5,809	$ 1,380	$ 8,821	$ 111,573
2003	45,770	30,485	15,695	1,318	5,320	5,490	2,045	8,756	114,879
2004	47,000	28,100	6,125	784	5,750	5,227	2,785	8,658	104,429
2005	44,069	30,686	555	661	5,725	4,940	3,515	8,522	98,673
2006	43,124	28,539	585	633	6,025	4,631	4,255	8,346	96,138
2007	47,970	21,415	615	309	6,400	4,301	5,105	8,091	94,206
2008	50,230	18,792	645	294	6,735	3,935	5,995	7,823	94,449
2009	52,415	15,771	680	294	6,015	3,551	6,970	7,505	93,201
2010	54,865	13,217	720	278	6,365	3,223	8,035	7,129	93,832
2011	58,265	10,190	760	539	6,710	2,873	3,737	12,150	95,224
2012	34,180	7,088	800	504	7,070	2,501	3,785	12,862	68,790
2013	33,130	5,288	840	467	7,450	2,105	3,662	13,335	66,277
2014	26,045	3,565	885	428	7,060	1,687	3,419	13,577	56,666
2015	11,405	2,248	935	386	5,985	1,327	3,190	13,807	39,283
2016	9,005	1,651	985	343	5,025	983	2,973	14,024	34,989
2017	7,020	1,179	1,040	298	3,615	700	2,797	14,200	30,849
2018	7,395	808	1,095	250	3,805	507	10,310	6,687	30,857
2019	5,950	464	1,155	200	3,930	308	10,905	6,094	29,006
2020	4,485	191	1,215	146	2,495	138	11,530	5,467	25,667
2021	1,335	36		89	920	27	12,190	4,810	19,407
2022				30			12,885	4,115	17,030
2023							13,615	3,380	16,995
2024							14,395	2,604	16,999
2025							15,215	1,784	16,999
2026							16,080	917	16,997
Total	$ 626,113	$ 252,628	$ 47,700	$ 9,889	$ 108,585	$ 54,263	$ 180,773[1]	$ 203,464	$ 1,483,415

1 A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 were sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be payable only at maturity or redemption. The interest accreted through Fiscal Year 2001, resulted in an increase of $8,939 in Revenue Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Commercial Paper Notes Previously Issued	Bonds Authorized But Unissued
1-26-80[1]	Drainage and Flood Control	$ 21,637	$ 17,413	$	$ 4,224
1-26-80[1]	Fire Protection	4,257	2,125		2,132
1-26-80[1]	Libraries	4,978	3,926		1,052
1-26-80[1]	Street, Bridge, and Related Improvements	43,287	34,035		9,252
5-07-94	Street Improvements	25,600	25,600		
5-07-94	Drainage Improvements	34,400	34,400		
5-07-94	Parks and Recreation	41,600	41,600		
5-01-99	Streets and Pedestrian Improvements	41,300	9,558	11,966	19,776
5-01-99	Drainage	19,000	3,082	376	15,542
5-01-99	Flood Control	12,200	4,210	1,850	6,140
5-01-99	Parks and Recreation	24,200	6,345	808	17,047
5-01-99	Library System	13,200	185		13,015
5-01-99	Public Safety	30,300	4,235		26,065
Total		$ 315,959	$ 186,714	$ 15,000	$ 114,245

[1]The City has authority pursuant to an election held on January 26, 1980, to issue $16,660 in bonds for libraries, fire protection, drainage and flood control, and street, bridge and related improvements, but the City does not currently intend to issue any such bonds.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2001 was $36,033,321 which provides a debt ceiling of $4,038,680. The total outstanding debt that is secured by an ad valorem tax pledge is $768,693.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Quasi-External Notes Payable

As an alternative to the issuance of external debt to finance certain projects/purchases, the City has determined that the use of available cash balances in the Internal Service Equipment Replacement Funds is a viable option. In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an option, the City has authorized such internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet these needs.

In June 1999, a loan was authorized from the City's Internal Service Fund to the International Center Fund (Special Revenue Fund) to assist in the financing of permanent building improvements and leasing agent commissions. The principal amount of the note is $200 with an annual interest rate of 6% and a repayment period of October 1999 through September 2003. In December 1999, a second loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $137 with an annual interest rate of 6% and a repayment period of December 1999 through September 2003. In September 1999, a third loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $62 with an annual interest rate of 6% and a repayment period of April 2000 through September 2003. Revenues from the International Center rentals will be utilized to meet the annual principal and interest requirements of the notes. These interfund transactions have been classified as "Quasi-external" transactions and accounted for as if the transactions had occurred with a party external to the City. Therefore, as of September 30, 2001, the remaining balance for the notes payable from the International Center Fund has been recorded in the General Long-Term Debt Account Group. The following is an annual debt service schedule:

Principal and Interest Requirements

Year Ending September 30,	Principal	Interest	Total Annual Requirements
2002	$ 107	$ 13	$ 120
2003	113	7	120
Total	$ 220	$ 20	$ 240

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Leases

In September 2000, the City entered into a lease-purchase agreement for the acquisition of fire pumper trucks, fire aerial trucks and firefighter personal protective equipment. The gross value of these assets at September 30, 2001 was $4,117. The remaining future lease payments under this lease-purchase agreement together with the present value of the net minimum lease payments as of September 30, 2001 are as follows:

General Long Term Debt

Year EndingSeptember 30,	Total Payments
2002	$ 1,113
2003	1,113
2004	763
2005	646
2006	162
Total Payments	3,797
Less portion representing interest	(363)
Present value of minimum lease payments	$ 3,434

Accumulated Accrued Benefits

The following is a summary of changes in the accumulated accrued benefits for the year ended September 30, 2001:

Accumulated Accrued Benefits

Description	Balance October 1, 2000	Additions	Reductions	Balance September 30, 2001
Sick Leave	$ 44,749	$ 8,234	$ 4,506	$ 48,477
Annual Leave	23,819	22,350	19,954	26,215
Total Accrued Benefits	$ 68,568	$ 30,584	$ 24,460	$ 74,692

2. Proprietary Long-Term Debt

Proprietary long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt which is expected to be repaid from the resources of proprietary funds is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities. In September 2001, the City sold $17,795 Airport System Improvement Revenue Bonds, Series 2001 which will be utilized to provide funds for the construction, improvements, equipment, renovation, and additions to the International Airport and to pay costs of issuances thereof. The bonds are retired in years 2014 to 2016 and have an interest rate of 5.375%. The bonds are insured by Financial Guaranty Insurance Company and are rated Aaa/AAA/AAA by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively.

Additionally, in April 2001, the City sold $50,230 of City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003, to be delivered April 8, 2003. The Series 2003 Bonds are payable from a lien on and pledge of the gross revenues of the airport system. The obligations bear interest rates ranging from 5.50% to 6.00% and will be retired serially in the years 2004 through 2013. Total annual principal and interest requirements for the Airport System are shown in the table at the end of this section.

The City effectuated a cash defeasance of $17,875 in Airport System Improvement Revenue Bonds, Series 1996 utilizing available funds in the Airport Capital Improvement Fund which generated total savings of $1,165 and present value savings of $865 or 4.84%. In addition, an extraordinary loss of $711 resulted from the defeasance.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. No additional long-term indebtness was incurred by the Parking System during fiscal year 2001. Total annual principal and interest requirements for the Parking System are shown in the table at the end of this section.

Golf Course System: The Golf Course System includes various golf courses and driving and practice ranges. Long-term debt is allocated to the Golf Course System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Golf Course System. This allocated debt is additionally secured by an ad valorem tax pledge. No additional long-term indebtedness was incurred by the Golf Course System during fiscal year 2001. Total annual principal and interest requirements for the Golf Course System are shown in the table at the end of this section.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The following table is a summary of changes in Proprietary Long-Term Debt for the fiscal year ended September 30, 2001.

Proprietary Long-Term Debt

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2000	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2001
Airport System							
Revenue Bonds:							
Series 1992	$ 3,130	2009	6.100	$ 3,130	$	$	$ 3,130
Series 1992 Refdg.	21,655	2006	5.500-5.750	11,230		1,555	9,675
Series 1993 Refdg.	73,785	2013	7.000-7.375	58,420		2,875	55,545
Series 1996	38,000	2014	5.700	37,425		18,200	19,225
Series 2001	17,795	2016	5.375		17,795		17,795
Subtotal	$ 154,365			$ 110,205	$ 17,795	$ 22,630	$ 105,370
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$	$	$ 24,845
General Obligation:							
Series 1992 Refdg.	16,785	2013	5.000-5.750	12,030		700	11,330
Series 1996A. Refdg.	495	2014	4.650-6.000	495			495
Series 1998A. Refdg.	1,155	2013	4.000-5.250	1,155			1,155
Tax-Exempt Certificates Of Obligation:							
Series 1992	1,735	2013	5.200-5.750	1,315		70	1,245
Series 1994	700	2004	5.750-6.000	115		25	90
Series 1996	1,105	2015	5.100-5.400	935		40	895
Subtotal	$ 46,820			$ 40,890	$	$ 835	$ 40,055
Golf Course System							
General Obligation:							
Series 1992 Refdg.	$ 3,295	2011	5.200-5.750	$ 2,335	$	$ 160	$ 2,175
Series 1993 Refdg.	1,515	2006	4.750-8.000	1,410		15	1,395
Series 1998A Refdg.	215	2011	4.000-5.000	215			215
Tax-Exempt Certificates Of Obligation:							
Series 1986A	3,400	2001	6.700	215		215	
Subtotal	$ 8,425			$ 4,175	$	$ 390	$ 3,785
Total	$ 209,610			$ 155,270	$ 17,795	$ 23,855	$ 149,210

[1]A portion of the outstanding principal applicable to certain series of Parking and Golf Course System bonds and certificates of obligation were advance refunded, prior to maturity, by the Series 1988, 1992, 1993, 1996A, and 1998A refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were utilized to purchase securities, guaranteed by the United States of America, which were irrevocably deposited into escrow accounts whose principal is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payment on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt for the City's Enterprise Funds including revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2001, are as follows:

Proprietary Long-Term Debt

Year Ending	Airport System			Parking System			Golf Course System		
Sept. 30:	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2002	$ 5,080	$ 6,701	$ 11,781	$ 1,055	$ 2,204	$ 3,259	$ 425	$ 208	$ 633
2003	5,410	6,492	11,902	1,135	2,147	3,282	455	179	634
2004	5,765	6,142	11,907	1,595	2,088	3,683	490	154	644
2005	6,120	5,762	11,882	1,690	2,005	3,695	515	129	644
2006	6,540	5,358	11,898	1,785	1,916	3,701	550	103	653
2007	6,370	4,927	11,297	1,870	1,821	3,691	240	76	316
2008	6,810	4,498	11,308	1,950	1,721	3,671	255	62	317
2009	7,255	4,039	11,294	2,050	1,615	3,665	265	48	313
2010	7,770	3,538	11,308	2,370	1,502	3,872	285	33	318
2011	8,310	3,006	11,316	2,525	1,370	3,895	305	17	322
2012	8,860	2,436	11,296	1,875	1,233	3,108			
2013	9,485	1,828	11,313	1,855	1,132	2,987			
2014	6,790	1,175	7,965	1,380	1,033	2,413			
2015	7,205	796	8,001	1,390	957	2,347			
2016	7,600	408	8,008	1,370	881	2,251			
2017				1,445	806	2,251			
2018				1,535	726	2,261			
2019				1,625	640	2,265			
2020				1,700	548	2,248			
2021				1,800	452	2,252			
2022				1,900	348	2,248			
2023				2,020	239	2,259			
2024				2,135	123	2,258			
Total	$105,370	$57,106	$ 162,476	$ 40,055	$ 27,507	$ 67,562	$ 3,785	$ 1,009	$ 4,794

Leases

Long-term debt of the City's Internal Service Funds and Golf Course Fund consisted of eight lease-purchase agreements. The City's Print Shop, which provides binding, printing, and reproduction services to other City departments, entered into lease-purchase agreements for the acquisition of a print shop copier, a color print shop copier, and a departmental copier. The City's Golf Course Fund entered into two lease-purchase agreements for the acquisition of golf cart equipment, and a lease-purchase agreement for golf turf equipment. The City's Information Services Fund entered into a lease-purchase agreement for the acquisition of a mainframe computer and a printer. The gross value of these assets at September 30, 2001 was $3,163. The remaining future lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2001 are as follows:

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Proprietary Long Term Debt

Year Ending September 30,	Total Payments
2002	$ 622
2003	539
2004	271
2005	183
2006	109
Thereafter	42
Total Payments	1,766
Less portion representing interest	(151)
Present value of minimum lease payments	$ 1,615

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2001, there were thirty-five series of Industrial Revenue Bonds, fifteen series of Health Facilities Development Bonds, and ten series of Special Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the three series Special Facility Revenue Bonds issued after October 1, 1997 was $5,500, $15,500, and $26,080, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Special Facility Revenue Bonds issued prior to October 1, 1997 could not be determined, however, their aggregate original principal issue amounts were $112,490, $80,581, and $67,720, respectively. In addition, the Health Facilities Development Corporation also gave consent approval for the financing of capital improvements and refinancing of certain outstanding debt of the Bexar County Hospital District in the amount of $83,375. The bonds were issued by the Tarrant County Health Facilities Development Corporation.

The City also facilitates the issuance of tax exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2001, there were twenty-seven series of tax exempt revenue bonds outstanding with an aggregate principal amount payable of $144,955.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2001 was $4,800 and $4,133, respectively.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Conduit Debt Obligations (Continued)

The City created the Municipal Facilities Corporation to aid and act on behalf of the City to acquire, construct, equip, finance, operate and maintain land and municipal facilities for the City at the request of the City Council of the City. The City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were issued to finance the acquisition and construction of a municipal office facility which will be leased to the City of San Antonio. The bonds are secured by the property financed and are payable solely from lease payments made by the City sufficient to pay principal and interest on the Bonds, subject to yearly budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. At September 30, 2001 Municipal Facilities Corporation Lease Revenue Bonds outstanding totaled $14,465.

Neither the City, the State, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Special Assessment Debt

During fiscal year 1997, the City issued $2,730 Special Assessment Revenue Refunding Bonds, Series 1997. The net proceeds of the transaction of $2,670 after payment of costs of issuance plus a cash contribution from the Special Assessment District of $957 were utilized to purchase securities guaranteed by the United States of America. These securities were deposited into an irrevocable escrow account and together with interest earned in the account will provide for all future debt service payments on the refunded debt. Accordingly, the refunded debt is considered to be defeased.

As of September 30, 2001, there were no Special Assessment Revenue Refunding Bonds, Series 1997 outstanding. The final payment on the Bonds was made on March 1, 2001.

Tax Increment Financing

The City has approved "Guidelines and Criteria" for the utilization of "Tax Increment Financing" ("TIF") and the creation of "Tax Increment Reinvestment Zones" ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code. The City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs related to economic development, commercial and residential projects. As of September 30, 2001, City Council passed and approved ordinances establishing eight TIRZ. These TIRZ are also referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farm, and Inner City Projects. The TIRZ were established in order to reimburse developers for the financing costs and public improvements to be made in each of the TIRZ for construction of single and multi-family residential housing, single family housing and commercial development projects.

B. City Public Service (CPS)

As of January 31, 2001 the Bond Ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Gross Revenue is applied as follows: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, including the establishment and maintenance of the reserve therefore, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service
Revenue Bonds
For Fiscal Year Ended January 31st

Bond Series	Maturities	Weighted-Average Interest Rate on Outstanding Bonds	2001	2000
Tax Exempt New Series Bonds, 1992-2000	2002-2021	5.236%	$ 2,521,350	$ 2,631,965
Taxable New Series Bonds, 1998-2000	2002-2021	6.666%	147,470	98,610
Total New Series Bonds outstanding		5.327%	2,668,820	2,730,575
Less: Current maturities of bonds			71,755	67,215
Revenue bonds, net of current maturities			$ 2,597,065	$ 2,663,360

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service

Principal and Interest Requirements

Year	Principal	Interest	Total
2002	$ 71,755	$ 140,904	$ 212,659
2003	77,825	137,404	215,229
2004	100,740	133,754	234,494
2005	120,335	128,598	248,933
2006	126,635	122,352	248,987
Thereafter to maturity	2,171,530	892,084	3,063,614
Total	$ 2,668,820	$ 1,555,096	$ 4,223,916

In November 2000, $215,700 par value of 1992 New Series bonds were legally defeased with cash. The net accounting loss of $2,600 reported included the par value of debt less $198,100 paid for the actual defeasance, plus unamortized reacquistion and bond issue costs of $20,200.

In 2001, CPS issued $221,200 in revenue bonds. The issue consisted of $170,800 in Tax Exempt Bonds at an avearge interest rate of 5.4% and $50,400 in Taxable Bonds at an average interest rate of 7.44%. The bonds were sold at a combined net premium of $6,000. Of the net proceeds from the New Series 2000 Bonds, $184,900 was used to reimburse the Repair and Replacement Account for prior construction expenditures. In addition, $34,000 of new money proceeds were deposited into the Bond Construction Fund to finance transmission projects.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund, in advance of maturity, $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $1,976 in 2001.

SAWS is developing a recycled water system which will provide nonpotable water to various customers now using Edwards Aquifer water. In 2001, the System generated an additional $200 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of the System and does have the restrictions of the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

On March 8, 2001 the City Council adopted Ordinance No. 93532 authorizing the issuance of $58,700 City of San Antonio Water System Senior Lien Revenue and Refunding Bonds, Series 2001 with interest rates ranging from 4.75% to 6.25% and having an average life of 17.792 years. With the inclusion of all costs of issuance, the true interest costs for the Series 2001 Bonds is 5.08%. The net proceeds of $58,618 (after payment of bond issuance costs) were used for the purpose of financing qualified System improvements related to wastewater and recycled water systems through the placement of $8,294 in an escrow fund to refund $8,300 of commercial paper notes and the issuance of $50,324 of new debt. The Senior Lien issuance resulted in the conversion of debt from short-term to long-term. As a result there is no economic gain or loss associated with the refundings.

On March 8, 2001 the City Council adopted Ordinance No. 93533 authorizing the placement of $9,715 City of San Antonio Water System Junior Lien Revenue Bonds, Series 2001 with the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 1.85% to 3.70% and having an average life of 13.875 years. With the inclusion of all costs of issuance, the true interest costs for the Series Junior Lien 2001 Bonds is 3.35%. The net proceeds of $9,443 (after payment of the TWDB administration fee and bond issuance costs) are to be used for the purpose of financing qualified System improvements related to wastewater and recycled water systems.

On March 8, 2001 the City Council adopted Ordinance No. 93534 authorizing the issuance of $15,435 in City of San Antonio Water System Junior Lien Revenue Bonds, Series 2001-A. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 2.35% to 4.20% and having an average life of 13.850 years. With the inclusion of all costs of issuance, the true interest costs for the Junior Lien Series 2001-A Bonds is 3.847%. The net proceeds of $15,000 (after payment of TWDB administration fee and bond issuance costs) are to be used for the purpose of financing qualified System improvements related to water resources and water projects.

Senior Lien Water System Revenue Bonds, comprised of Series 1992, Series 1996, Series 1997, Series 1999, and Series 2001, outstanding in the amounts of $594,200 and $567,440 at May 31, 2001, and 2000, respectively are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of the System and maintaining an operating reserve for operating and maintenance expenses. At May 31, 2001 these bonds are due in varying amounts, from a low of $13,540 in 2019 to a high of $38,690 in 2012. At May 31, 2000 these bonds were due in varying amounts, from a low of $10,355 in 2019 to a high of $38,385 in 2012.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A outstanding in the amount of $134,255 at May 31, 2001, and are collateralized by a junior lien and pledge of the gross revenues of the System after deducting and paying the current expenses of operation and maintenance of the System, maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At May 31, 2001 the Junior Lien bonds were due in varying amounts, from a low of $1,920 in 2020 to a high of $10,900 in 2019.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Annual debt service requirements are shown as follows:

Annual Debt Service Requirements
Revenue Bonds

Year Ending May 31	Junior Lien Revenue and Refunding Bonds	Senior Lien Revenue and Refunding Bonds	Total Annual Requirements
2002	$ 9,435	$ 55,680	$ 65,115
2003	9,434	55,372	64,806
2004	9,439	55,412	64,851
2005	9,433	55,414	64,847
2006	9,433	55,497	64,930
Thereafter	144,273	722,651	866,924
	$ 191,447	$ 1,000,026	$ 1,191,473
Principal	$ 134,255	$ 594,200	$ 728,455
Interest	57,192	405,826	463,018
Total	$ 191,447	$ 1,000,026	$ 1,191,473

Capitalized Interest Costs

Interest costs incurred on revenue bonds and commercial paper totaled $41,683 during fiscal year 2001, of which $6,859 was capitalized as part of the cost of SAWS' utility plant additions.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Debt Coverage Ratio (Unaudited)

SAWS is required to comply with various provisions included in the ordinances which authorized the bond issuances. Debt coverage ratios are shown as follows:

San Antonio Water System
Revenue Bond Debt Coverage Ratio

	For the Fiscal Years Ended May 31: 2001	2000
Operating Revenues	$ 199,884	$ 195,727
Less: Revenues from City Public Service Contract	1,976	2,048
	197,908	193,679
Nonoperating Revenues	7,341	8,468
Less: Interest on Debt Service and Project Funds	2,358	4,701
	4,983	3,767
Gross Revenues	202,891	197,446
Maintenance & Operation Expense	121,351	115,016
Pledged Revenues	$ 81,540	$ 82,430
Maximum Annual Principal and Interest Requirements on Outstanding Senior Lien Bonds	$ 56,293	$ 53,566
Debt Coverage Ratio	1.45%	1.54%
Maximum Annual Principal and Interest Requirements on all Outstanding Bonds	$ 66,994	$ 62,099
Debt Coverage Ratio	1.22%	1.33%
Debt Service Requirement for Fiscal Year	$ 60,765	$ 59,936
Debt Coverage Ratio	1.34%	1.38%

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment and software. During fiscal year 2001 SAWS entered into a lease agreement for the purchase of heavy equipment for the Internal Service Fund. These lease agreements meet the requirements of capital lease for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are for three to five years with payments of $19,905 monthly and $238,866 annually. The annual percentage rate of the leases range from 2.9% to 5.8%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS. Please note the amounts in this paragraph are not stated in thousands.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Leases (Continued)

The future minimum lease obligations and the present value of these minimum lease payments as of May 31, 2001, were as follows:

San Antonio Water System
Minimum Lease Obligation and Present Value of Lease Payments

Years Ending May 31,	
2002	$ 395
2003	286
2004	163
2005	132
2006	22
Total Minimum Lease Payments	998
Less: Amount Representing Interest	(88)
Present Value of Minimum Lease Payments	$ 910

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS owned properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of May 31, 2001 is reflected on the balance sheet for both the current portion of $257 and long term amount of $2,580.

Principal and Interest Requirements

Year Ending May 31,	Principal	Interest	Total Annual Requirements
2002	$ 277	$ 203	$ 480
2003	298	182	480
2004	321	159	480
2005	346	134	480
2006	373	107	480
Thereafter	1,222	138	1,360
Total	$ 2,837	$ 923	$ 3,760

7. COMMERCIAL PAPER PROGRAMS

A. City of San Antonio

In October 1999, the City Council of the City of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $50,000 in General Improvement Commercial Paper Notes. This ordinance provides interim financing to pay project costs for eligible projects and to refund obligations issued in connection with an eligible project. Eligible projects are defined as any project for which there exists, as of the date of the note ordinance, authorized but unissued obligations approved at an election held on May 1, 1999 and project approved by future elections. The Notes will be issued with various maturities ranging from 1 to 270 days, provided however, that none of the Notes mature later than February 1, 2020.

Under a revolving credit agreement, dated as of December 15, 1999, between the City and Bank One, NA (the Bank) the City may borrow up to an aggregate principal amount of up to $53,699, for the purposes of paying amounts due on the Commercial Paper notes. The notes were issued to pay costs of capital improvements authorized to be financed by the May 1, 1999 election.

The City issued $15,000 of the General Improvement Commercial Paper Notes on July 6, 2000. The proceeds of the notes have been used to provide financing to pay project cost for eligible projects. As of September 30, 2001, $15,000 of Commercial Paper notes are outstanding with interest rates on the notes at 5.250% and with various maturities ranging from 91 to 104 days.

On November 9, 2000, the City Council approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edward Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes are supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000 to be issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch (Helaba or the Bank). The Letter of Credit in an amount equal to $37,589 enables the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold $32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001. As of September 30, 2001, $32,700 of Commercial Paper notes are outstanding with interest rates on the notes between 2.000 and 3.500% and with various maturities ranging from 1 to 131 days.

The aforementioned Commercial Paper Notes have been classified as long term in accordance with the refinancing terms of the revolving credit agreement identified above.

B. City Public Service (CPS)

In October 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance as amended provides for funding to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems), and to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2002, and may be renewed for additional periods.

7. COMMERCIAL PAPER PROGRAMS (Continued)

B. City Public Service (CPS) (Continued)

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues are subordinate and inferior to the pledge securing payment of New Series Bonds and any to be issued in the future.

CPS sold $118,000 of TECP in fiscal year 2001; $78,000 has been used to fund construction expenditures through January 2001. As of January 31, 2001, $252,800 in principal amount was outstanding, with a weighted average interest rate of approximately 3.95% and an average life outstanding of approximately 92 days.

C. San Antonio Water System (SAWS)

On January 11, 2001, the City Council authorized SAWS to expand the tax exempt short-term borrowing program (the "Commercial Paper Program") from $175 million to $350 million. The purpose of the Commercial Paper Program is to provide funds for the interim financing of a portion of the costs of capital improvements to SAWS. Scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032. The City has convenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving Credit Agreement.

SAWS issued $113,000 in notes under the Commercial Paper Program during the fiscal year ended May 31, 2001. The proceeds of the notes have been used solely for the financing of capital improvements of SAWS. Commercial paper notes in the amount of $165,000 are outstanding at May 31, 2001 with interest rates on the notes ranging from 2.90% to 4.17% and from 18 to 189 days in maturity.

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8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City, SAWS and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Fund	Single Employer Defined Benefit Plan	$ 170,715	$ 21,032	$ 42,065	$ 63,097
	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Benefit Agent Plan	185,083	11,105	21,610	32,715
Component Units:						
[1]SAWS	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Benefit Agent Plan	51,312	1,581	1,620	3,201
	PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	51,050		2,968	2,968
[2]CPS	CPS All Employees Plan	Single Employer Defined Benefit Plan	148,936	7,197	5,633	12,830

[1] Year ended May 31, 2001

[2] Year ended January 31, 2001

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate having five to twenty years of service may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 1999 is computed at the rate of 2.125% of this average for the first twenty years of service, plus 4% for each of the next ten years served and 1% for each of the next five years of service, up to 87.5% of the average salary. Additionally, plan amendments effective October 1, 1997 include an increase of 1% in the annual benefit for members who retired prior to October 1, 1989, and an increase in the benefit multiplier of 0.5% for each year of service between twenty-five and thirty years.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13^{th} and a 14^{th} pension check. At the end of each fiscal year ending after 1996, the Board may authorize the disbursement of a 13^{th} monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. At the end of any fiscal year ending after 2000, the Board may authorize a 14^{th} monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13^{th} and 14^{th} pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of $42,065 and the employee's required contribution of $21,032 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio (Continued)

Fire and Police Pension Plan (Continued)

For the year ended September 30, 2001, the City's annual pension cost of $42,065 for the Pension Fund was equal to the City's required and actual contributions. The annual required contribution was determined as part of the October 2000 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Pension Fund's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2000 was 11.39 years.

Texas Municipal Retirement System

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory; hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1947 to provide retirement and disability benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 10 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

The plan provisions are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio (Continued)

Texas Municipal Retirement System (Continued)

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.61%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

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8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2001.

Texas Municipal Retirement System

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS- financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages of 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period, which began January 1, 1998. The unit credit actuarial cost method is used for determining SAWS contribution rate.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS'covered payroll at January 1, 2001 under this contract was $51,050.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.5 % per year, (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%, and (c) plan expenses according to the expense scales of the Service Agreements.

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by the System. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by the System. The actuarial valuation, which was performed for the plan year, ended December 31, 2001 reflects an unfunded frozen initial liability of $8,884. For the plan year ended December 2000, SAWS annual pension cost of $2,770 was equal to SAWS required and actual contributions.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. CPS All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55.

The Plan is sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is periodically audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5 % of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 3.8% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2001 were $5,392 and $99 respectively. The annual required contribution was determined as part of the January 1, 2000 actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar for amortization. The remaining amortization period is 11.01 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2000 actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5 % per year compounded annually, (b) projected salary increases averaging 5.0 %, and (c) post-retirement cost-of-living increases of 2.0 %. The projected salary increases include an inflation rate of 4.0 %.

8. PENSION AND RETIREMENT PLANS (Continued)

E. Required Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of APC Contributed
Fire and Police Pension – City of San Antonio	1999	$ 36,882	$	$	$ 36,882	$	$	$	$	100%
	2000	40,238			40,238					100%
	2001	42,065			42,065					100%
TMRS – City of San Antonio	1999	14,921			14,921					100%
	2000	19,352			19,352					100%
	2001	21,610			21,610					100%
CPS All Employee Plan[1]	1999	14,642			14,642	(14,152)	490		490	97%
	2000	12,288	42	(490)	11,840	(12,231)	(391)	490	99	103%
	2001	5,397	8	(13)	5,392	(5,392)		99	99	100%
TMRS – SAWS[2]	1999	1,576			1,576					100%
	2000	1,593			1,593					100%
	2001	1,620			1,620					100%
PMLIC – SAWS[2]	1999	3,344			3,344					100%
	2000	4,753			4,753					100%
	2001	2,770			2,770					100%

[1] Year ended January 31, 2001
[2] Year ended May 31, 2001

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	Included as a percentage of the Consumer Price Index
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

(amounts are expressed in thousands)

9. POST RETIREMENT BENEFITS

A. City of San Antonio

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two post-employment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,401 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2001, there were 1,375 retirees participating in the program which covers eligible expenses at eighty percent after a deductible of $200 (single)/$400 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $5,492. For the year ended September 30, 2001, total contributions were as follows:

City	$ 2,539
Employees	1,467
TOTAL	$ 4,006

The second post-employment benefit program of the City provides retirement health care benefits for eligible Fire and Police Retirees, in accordance with provisions established by contract with the local Fire and Police Unions. Activity for this program had previously been reported in the Self-Insurance Internal Service Fund. Pursuant to the passage of Senate Bill 1568, the Fire and Police Retiree Health Fund, a separate and distinct statutory trust was created for this program.

The benefits of this plan are financed on a pay-as-you-go basis. The City currently makes contributions on behalf of 3,297 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 749 eligible retirees. The Program reimburses 80 percent of the amount of eligible claims for standard medical costs and 100 percent for hospitalization costs incurred by the retiree and their eligible dependents. Based on the Fire and Police contracts, the City contributed 9.4% of base pay plus longevity for active Fire and Police employees. Additionally, beginning in January 2001, active firefighters and police officers contribute $20 per month. Please note the number of firefighters and police officers, retirees, and City monthly contribution rates in this paragraph are not expressed in thousands. For the year ended September 30, 2001, total expenses for retired employees was $4,404 and total contributions were as follows:

City	$ 14,741
Employees and Retiree Dependent Premiums	867
TOTAL	$ 15,608

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

(amounts are expressed in thousands)

9. POST RETIREMENT BENEFITS (Continued)

B. City Public Service (CPS) (Continued)

These costs approximated $2,700 for 2001. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $219 for fiscal year 2001.

Retired employees and covered dependents contributed $1,100 for their health care and life insurance benefits in fiscal year 2001. There were approximately 2,070 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2000 valuations are $45,200 for health and $16,000 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $31,600 for health, $4,700 for life insurance, and $2,600 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $2,600 in 2001, $3,700 in 2000, and $5,200 in 1999. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2000 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health and life plans and 7% per year for the disability, (b) projected salary increases for the plans ranging from 3.3% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 6% for 2001 and 2000.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On May 31, 2001, there were 318 retirees with life insurance and 343 retirees with medical coverage. Please note the numbers of retirees is not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. For the year ending May 31, 2001, premiums for medical insurance and life insurance amounted to $2,147 and $44, respectively. Those and similar benefits for active employees are provided through insurance companies.

10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Reliant Energy, formerly known as HL&P, Central Power and Light Company (CPL), and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2001, CPS' investment in the STP utility plant was approximately $1,700,000 net of accumulated depreciation.

Effective November 17, 1997 the Participation Agreement among the owners of STP was Amended and Restated and the STP Nuclear Operating Company, a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP Nuclear Operating Company.

(amounts are expressed in thousands)

10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Insurance

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability for licensees of nuclear power plants is $9,340,000 per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $83,900 (amount may be adjusted for inflation) for each licensed reactor, but not more than $10,000 per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments, and all participants have agreed that any such assessments will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400,000 for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988, who do not use the workers' compensation system as sole remedy and bring suit against another party.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain on-site property damage insurance in the amount of $2,750,000 of nuclear property insurance, which is above the legally required amount of $1,060,000, but is less that the total amount available for such losses. The $2,750,000 of nuclear property insurance is composed of $500,000 for primary property damage insurance and a layer of excess property damage insurance that would contribute $2,250,000 of additional coverage that is subject to a retrospective assessment from each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $12,900 during any one policy year.

Nuclear Decommissioning

In July 1990, CPS, together with the owners of the STP, filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that this cost estimate would be reviewed and updated periodically as it could change by a material amount. In 1994, the owners did conduct a review of decommissioning costs. The results showed that CPS' share of decommissioning costs is now approximately $270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust Assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2001, CPS has accumulated approximately $119,800 in decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $61,000 at December 31, 2000. Based upon the 1994 decommissioning cost study, the annual levelized funding into the trust of $9,400 for 2001 was expensed by CPS.

11. COMMITMENTS AND CONTINGENCIES

A. City of San Antonio

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2001. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2001 were $145,440.

Revenue from City Public Service

The Trust Indenture of City Public Service provides for payments to the City up to 14% of CPS' gross revenues, as defined, to be paid or provided to the City. For the year ended September 30, 2001, the City recorded as revenue from CPS $182,411 in the General Fund.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2002. The estimated cost of these improvements is $88,829. Approximately $12,346 of the total will be funded by federal grants.

Revenue from San Antonio Water System

City ordinance No. 75686 provides for payments to the City up to 2.7% of SAWS' gross revenues, as defined, to be paid or provided to the City. For the year ended September 30, 2001, the City recorded as revenue from SAWS $5,529 in the General Fund. Additionally, the City recorded revenue in the amount of $16,797 in the Stormwater Special Revenue Fund for stormwater fees.

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. As of September 30, 2001, alleged damages in lawsuits are approximately $51,000. The Office of the City Attorney estimates the probable liability for these suits will approximate $11,000 which is reserved for claims liability in the amount of $18,500. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the general purpose financial statements.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the respective City funds.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Solid Waste Enterprise Fund in fiscal year 1994.

Each fiscal year the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2001 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,124. This represents a reduction of $41 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TNRCC Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Natural Resource Conservation Commission (TNRCC) related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Alamodome Soil Remediation

The City has taken an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It is working in conjunction with the Texas Natural Resources Conservation Commission (TNRCC) on the continued development and implementation of a remediation plan that addresses both on and off-site locations that may contain contaminated soil. As of September 30, 2001, the City has expended approximately $13,255 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately $243. In January 1996, TNRCC issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations for alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City and TNRCC entered into an Agreed Order relating to enforcement actions taken by the Commission against the City and VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upon successful completion, by the City, of certain supplemental environmental projects in the total amount of $628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites, with VIA contributing $350 towards these efforts.

The City to date has completed the Supplemental Environmental Projects as identified in the Agreed Order and has received concurrence from the TNRCC that these projects were successfully completed. Additionally, eight of the ten sites that require remedial activity under the Agreed Order have been completed. The TNRCC has provided closure letters for all of these sites. Final remediation is scheduled for fiscal year 2002 for the two remaining sites.

B. CPS

Other

Purchase and construction commitments amounted to approximately $1,800,000 at January 31, 2001. This amount includes approximately $671,900 that is expected to be paid for natural gas purchases to be made under the contracts currently in effect through June 2002; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period and the price of gas. Commitments also include $84,600 for pipeline quality gas to be produced from the City of San Antonio "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is $47,400 for coal purchases through December 2003, $357,000 for coal transportation through December 2004, and $6,800 for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

Additional purchase commitments at January 31, 2001, which are related to STP include approximately $302,800 for raw uranium and associated fabrication and conversion services. This amount represents services that will be needed for future refueling through the year 2028.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

B. CPS (Continued)

Other

The Public Utility Commission of Texas (PUCT) has promulgated new rules designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on a single state-wide fee. This rate structure potentially will cost CPS $20,000 to $25,000 per year in additional transmission costs that will effectively subsidize competing utilities with higher transmission costs. Under a phased-in feature of this plan, CPS' costs for calendar years 1997, 1998, 1999, 2000 were approximately $1,300 $1,400, $5,900 and $20,500 million respectively. In March 2000, CPS began recovering these costs from customers.

CPS challenged the initial Rule's validity in State District Court. CPS appealed the State District Court's opinion upholding the Rule's validity, and the court of Appeals overturned the District Court's decision. The case was appealed by the Attorney General to the Texas Supreme Court, and the Supreme Court heard arguments on December 6, 2000, and the Supreme Court's decision is pending. This case will have only a limited effect for CPS in mitigating the impact of the PUCT's current Rules because the primary amounts CPS could potentially be refunded are only those deficit amounts from 1997, 1998, and 1999, referred to above.

Joint Operations Agreement

A 1997 Joint Operations Agreement resulted from the litigation settlement with Reliant Energy, formerly known as Houston Lighting & Power, over its management of STP during the construction and early operating periods. The Joint Operating Agreement is an arrangement to jointly dispatch CPS' and Reliant's generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. CPS receives, in monthly cash payments, ninety percent of the savings realized from the jointly operated systems. This joint operation agreement must result in at least $10,000 in cumulative savings per year to CPS, or Reliant will make up the difference in cash. A similar payment will be made by Reliant to ensure benefits to CPS of $150,000 in savings during the ten-year life of this agreement. As of January 31, 2001, CPS' total cumulative savings were $137,600.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

C. SAWS

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $91,400 as of May 31, 2001. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

12. SEGMENT INFORMATION

The City has four enterprise operations, which include the Airport System, Parking Facilities, Golf Course System, and Solid Waste System. Segment information for these operations and the City's significant discretely presented component units, CPS and SAWS, for the year ended September 30, 2001 is as follows:

Segment Information

	Airport System	Parking Facilities	Golf Course System	Solid Waste System	Total Primary Government	Gas and Electric System (CPS)[1]	San Antonio Water System (SAWS)[2]
Operating Revenues	$ 39,815	$ 7,986	$ 6,677	$ 41,651	$ 96,129	$ 1,338,970	$ 199,884
Operating Expenses exclusive of Depreciation	21,223	4,894	6,209	44,429	76,755	939,152	125,084
Depreciation	7,289	607	534	208	8,638	197,322	49,605
Operating Income	11,303	2,485	(66)	(2,986)	10,736	202,496	25,195
Other Revenue (Expenses)	(2,243)	(949)	(255)	365	(3,082)	(108,913)	(31,035)
Operating Transfers In (Out)	(1,151)	(242)	(330)	(241)	(1,964)		
Extraordinary Items	(711)				(711)	(2,586)	
Net Income (Loss)	$ 7,198	$ 1,294	$ (651)	$ (2,862)	$ 4,979	$ 90,997	$ (5,840)
Total Assets	$ 298,702	$ 52,936	$ 10,396	$ 12,104	$ 374,138	$ 5,978,676	$ 1,828,384
Total Equity	$ 181,439	$ 11,635	$ 4,013	$ 7,408	$ 204,495	$ 2,139,531	$ 908,525
Working Capital	$ 6,065	$ 3,413	$ (536)	$ 2,607	$ 11,549	$ 345,472	$ 19,865
Additions to Fixed Assets	$ 9,411	$ 6,845	$ 33	$ 998	$ 17,287	$ 248,155	$ 116,923
Net Capital Contributions	$ 79,600	$ 190	$ 5,526	$ 3,699	$ 89,015	$	$ 622,585
Outstanding Revenue Bonds	$ 104,954	$ 24,700	$	$	$ 129,654	$ 2,506,644	$ 705,245
Outstanding Bonds and Certificates of Obligation	$	$ 15,035	$ 3,762	$	$ 18,797	$	$

[1]For the Fiscal Year Ended January 31, 2001
[2]For the Fiscal Year Ended May 31, 2001

(amounts are expressed in thousands)

13. INSURANCE

A. City of San Antonio

Property and Casualty Liability

At September 30, 2001, the City has excess insurance coverage through North River Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. The Travelers Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. In fiscal year 2001 and 2000, there were no significant reductions in insurance coverage and claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes a third party administrator for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Fund and Departments are assessed premiums to cover expenditures. As of September 30, 2001, the City has excess workers' compensation coverage through the North River Insurance Company.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

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(amounts are expressed in thousands)

13. INSURANCE (Continued)

A. City of San Antonio (Continued)

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Fund is used to account for revenues and operating expenses of the City's Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

Claims Liability

The liability for the Employees Benefits Program is based on the estimated aggregate amount outstanding at the balance sheet date for unpaid benefits. Liabilities for the Insurance Reserve and Worker's Compensation Programs are reported when it is probable that a loss has occurred as of the balance sheet date and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims which have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve and Workers' Compensation Programs is based on a discounted rate of 4.5% in anticipation of future investment earnings.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2001:

Schedule of Changes In Claims Liability

Fund	Liability Balance October 1,	Claims & Adjustments	Claims Payments	Liability Balance September 30,
Insurance Reserve				
Fiscal Year 2000	18,531	5,119	(5,119)	18,531
Fiscal Year 2001	18,531	6,434	(6,434)	18,531
Employee Benefits				
Fiscal Year 2000	3,415	28,429	(28,429)	3,415
Fiscal Year 2001	3,415	34,238	(33,638)	4,015
Workers' Compensation[1]				
Fiscal Year 2000	16,858	8,496	(8,496)	16,858
Fiscal Year 2001	16,858	10,532	(8,685)	18,705

[1]The Worker's Compensation Liability Balance of $18,705 is comprised of $16,379 recorded in the Workers Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

(amounts are expressed in thousands)

13. INSURANCE (Continued)

B. CPS

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2000.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2001 and 2000, CPS has accumulated approximately $139,100 and $143,400, respectively, in these external trusts. The trust accounts and related claims liabilities are not included in CPS' financial statements. CPS has recorded $18,300 of expense related to these plans for the year ended January 31, 2001 and $17,400 for the year ended January 31, 2000.

In January 2001, CPS recorded $12,000 additional depreciation expense for dismantling of storeroom and general property locations. CPS recorded estimated costs for landfill and fly ash pond closure, dismantling, and remediation of $400 in 2001. Closure and postclosure costs were estimated for the Class I non-hazardous waste landfill in accordance with EPA regulations.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31, 2001 and 2000:

Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2000	10,252	7	(101)	10,158
Fiscal Year 2001	10,158	406	(620)	9,944
Employee & Public Liability Claims				
Fiscal Year 2000	3,540	5,549	(3,486)	5,603
Fiscal Year 2001	5,603	3,117	(2,880)	5,840

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(amounts are expressed in thousands)

13. INSURANCE (Continued)

C. SAWS

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first $500 of each worker's compensation and $250 for general liability, automobile liability, public official's liability and $100 for pollution legal liability (new coverage during Fiscal Year 2001) claim whereby any claim which cost exceeded the self insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the fiscal year ended May 31, 2001, there were no reductions in insurance coverage from the previous year and there were no claims which exceeded the self insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $2,174 as of May 31, 2001, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

Schedule of Changes In Claims Liability

Year Ended May 31,	Balance at Beginning of Fiscal Year Liability	Claims & Adjustments	Claims Payments	Balance at End of Fiscal Year Liability
2000	$ 3,652	$ 714	$ (1,503)	$ 2,863
2001	$ 2,863	$ 913	$ (1,602)	$ 2,174

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14. DEFICITS IN FUND BALANCES / RETAINED EARNINGS

Special Revenue Funds

As of September 30, 2001, deficit fund balance at year end is reported in the Home Program and the Community Development Program in the amounts of $33 and $114 respectively. The deficit is attributable to projects for which reprogramming of Home Program and Community Development Program funds will occur subsequent to year end. Upon reprogramming of funds, the deficit fund balance will be fully funded.

Following is a reconciliation of the deficit fund balances disclosed above to total Special Revenue Fund Equity reported in the Combined Balance Sheet as of September 30, 2001:

Budgeted on an annual basis - Fund Balances		$ 93,005
Budgeted on a project basis - Fund Balances		
Home Program	$ (33)	
Community Development Program	(114)	
Categorical Grant-in Aid	2,759	
Community Services	11,665	
HUD 108 Loan Program	132	
Total budgeted on a project basis - Fund Balances		14,409
Total Special Revenue Fund Equity		$ 107,414

Enterprise Funds

As of September 30, 2001 a deficit retained earnings at year end is reported in the Golf Course System Fund in the amount of $1,513. This deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor and equipment costs have contributed to the deficit. The City's Organizational Review Division within the Budget and Employee Services Department conducted a performance review of the Parks Department's Golf Operations Division to address these issues. The results of this review were presented to Council along with recommendations, which would increase revenues and improve the quality of the municipal courses. Implementation of the recommendations associated with the performance review are ongoing and it is anticipated that the golf courses will become more competitive in the marketplace in future years.

Following is a reconciliation of the deficit retained earnings disclosed above to total Enterprise Fund Equity reported in the Combined Balance Sheet as of September 30, 2001:

Airport System - Retained Earnings	$ 101,839	
Parking Facilities - Retained Earnings	11,444	
Golf Course System - Retained Earnings	(1,513)	
Solid Waste System - Retained Earnings	3,710	
Total Enterprise Fund - Retained Earnings		$ 115,480
Enterprise Fund - Contributed Capital		89,015
Total Enterprise Fund Equity		$ 204,495

(amounts are expressed in thousands)

14. DEFICITS IN FUND BALANCES / RETAINED EARNINGS (Continued)

Internal Service Funds

As of September 30, 2001, a deficit retained earnings at year end is reported in the Information Services Fund in the amount of $5,733. This deficit is attributable to depreciating contributed equipment, while not depreciating or amortizing the offsetting Contributed Capital in the reserve for equipment renewal and replacement component of retained earnings.

As of September 30, 2001, deficit retained earnings at year end are reported within the Self-Insurance Fund in the Employee Benefits Program and the Unemployment Compensation Program in the amounts of $4,819 and $53 respectively. The City will fund the deficits through assessments charged to the various City funds in future years. Strategies such as cost containment programs including hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization are utilized to manage the rising costs of medical care. In addition to continuing enhancement of these cost containment programs, the City will seek the services of an outside consultant in 2002 to perform a comprehensive review of the Employee Benefits Program.

Following is a reconciliation of the deficit retained earnings disclosed above to total Internal Service Fund Equity reported in the Combined Balance Sheet as of September 30, 2001:

Other Internal Services - Retained Earnings		$ 38,596
Information Services		(5,733)
Self-Insurance Programs - Retained Earnings		
Insurance Reserve Program	$ 7,649	
Employee Benefits Program	(4,819)	
Worker's Compensation Program	3,292	
Unemployment Compensation Program	(53)	
Other Self-Insurance Programs	64	
Total Self-Insurance Program - Retained Earnings		6,133
Internal Service Fund - Contributed Capital		39,418
Total Internal Service Fund Equity		$ 78,414

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(amounts are expressed in thousands)

15. CONTRIBUTED CAPITAL

Activity for the year ended September 30, 2001, related to contributed capital is as follows:

Proprietary Fund Type Contributed Capital

	Airport System	Parking Facilities	Golf Course System	Solid Waste System	Total Primary Government Enterprise Funds	Internal Service	Total Primary Government	Gas and Electric System (CPS)[1]	San Antonio Water System (SAWS)[2]
Contributed Capital, October 1	$ 81,154	$ 190	$ 5,526	$ 3,699	$ 90.569	$ 38,811	$ 129,380	$ 0	$ 598,076
Additions -									
Local Government						607	607		
Federal									
Customers									24,509
Intergovernmental									
Deductions -									
Amortization of Federally Contributed Fixed Assets	(1,554)				(1,554)		(1,554)		
Contributed Capital, September 30	$ 79,600	$ 190	$ 5,526	$ 3,699	$ 89,015	$ 39,418	$ 128,433	$ 0	$ 622,585

[1]For the fiscal year ended January 31, 2001
[2]For the fiscal year ended May 31, 2001

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(amounts are expressed in thousands)

16. FUND EQUITY

The amounts reported on the combined balance sheet identified as designated fund balance for the year ended September 30, 2001 are comprised of the following:

General Fund

Designated for Budget Carryforwards		$ 14,053
Designated for Revenue Loss		23,168
Total Designated – General Fund		$ 37,221

Special Revenue Fund

Designated for Budget Carryforwards		
Convention Center System Development Fund	$ 49	
Emergency Medical Services Fund	124	
Hotel Motel Tax Fund	1,080	
Alamodome Fund	122	
Special Revenue Reserve Fund	100	
Street Maintenance and Improvements Fund	1,115	
Stormwater Operations Fund	304	
International Center Fund	69	
Job Training, Neighborhood Revitalization and Economic Development Fund	3,528	
Community Services Fund	1	
Parks Development and Expansion Fund	48	
Total Designated for Budget Carryforwards		$ 6,540
Designated for Improvement and Contingency		
Hotel Motel Tax Fund	$ 7,511	
Alamodome Fund	230	
Nelson Wolff Stadium	21	
Total Designated for Improvement and Contingency		7,762
Designated for Renewal and Improvement		
Hotel Motel Tax Fund	$ 1,670	
Alamodome Fund	2,559	
Total Designated for Renewal and Improvement		4,229
Total Designated – Special Revenue Fund		$ 18,531

The above designations are utilized in the City's governmental funds to indicate plans by management to earmark an amount of fund balance for contingencies, future capital improvements, acquisitions, and capital expenditures. The General Fund designation for revenue loss increased by $2,300 to $23,168 as of September 30, 2001.

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17. SUBSEQUENT EVENTS

A. City of San Antonio

Sale of Refunding and New Money General Obligation Debt

The market environment provided an opportunity for the City to take advantage of the low interest rates and issue new money obligations to finance the City's on-going capital improvement program. On November 8, 2001, the City Council approved the sale of the following obligations:

$84,945 General Improvement and Refunding Bonds, Series 2001, maturing 2002 through 2022, with interest rates ranging from 3.000% to 5.250%.

$65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001, maturing 2003 through 2014, with interest rates ranging from 4.000% to 5.250%.

$251,280 General Improvement Forward Refunding Bonds, Series 2002, maturing 2002 through 2013, with interest rates ranging from 4.000% to 5.250%.

Delivery of the proceeds from the 2001 obligations occurred on November 29, 2001. Proceeds of the Series 2001 obligations will be utilized to refund a portion of the City's outstanding tax supported debt and to finance general improvements to the City, including streets and pedestrian improvements, drainage improvements, flood control with park improvements, parks and recreation facilities improvements, library improvements, and public safety improvements.

Delivery of the 2002 Forward Refunding bonds is scheduled to occur on May 7, 2002 and will be utilized to refund the Refunded Obligations.

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(amounts are expressed in thousands)

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City of San Antonio
Texas

Required Supplementary Information

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-00	$ 1,181,582	$ 1,339,954	$ 158,372	88%	$ 168,944	94%
10-01-99	1,031,786	1,256,746	224,960	82%	162,892	138%
10-01-98	903,555	1,160,023	256,468	78%	155,389	165%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-00	$ 388,462	$ 499,824	$ 111,362	78%	$ 168,040	66%
12-31-99	371,118	475,605	104,487	78%	154,797	67%
12-31-98	343,424	434,544	91,120	79%	140,375	65%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-00	$ 648,100	$ 610,800	$ (37,300)	106%	$ 148,900	(25)%
01-01-99	563,400	565,000	1,600	100%	138,500	1%
01-01-98	507,600	520,500	12,900	98%	129,100	10%

NOTES: (1) Abstracted from City payroll records.

(2) GASB Statement No. 27 requires the above trend information for a period of three years.

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-00	$ 44,206	$ 53,974	$ 9,768	82%	$ 51,312	19%
12-31-99	40,495	49,140	8,645	82%	48,145	18%
12-31-98	37,467	45,608	8,141	82%	48,672	17%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-01	$ 31,341	$ 40,797	$ 9,457	77%	$ 51,050	19%
01-01-00	26,417	46,229	19,812	57%	48,202	41%
01-01-99	23,553	45,391	21,838	52%	48,183	45%

NOTES: (1) GASB Statement No. 27 requires the above trend information for a period of three years.

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APPENDIX C

FORM OF OPINION OF CO-BOND COUNSEL

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Fulbright & Jaworski L.L.P.
300 Convent Street, Suite 2200
San Antonio, Texas 78205

Escamilla & Poneck, Inc.
711 Navarro, Suite 100
San Antonio, Texas 78205

FINAL

IN REGARD to the authorization and issuance of the "City of San Antonio, Texas General Improvement Refunding Bonds, Series 2003" (the *Bonds*), dated May 1, 2003, in the aggregate principal amount of $40,905,000, we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof, and have stated maturities of August 1 in each of the years 2004 through 2014. The Bonds are not subject to redemption prior to stated maturity. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance authorizing the issuance of the Bonds (the *Ordinance*).

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the City's obligations being refunded by certain proceeds of the Bonds, and with respect to the exemption of the interest on the Bonds from federal income taxes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED, and in rendering the opinions herein we rely upon, original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance and the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida (the *Escrow Agent*); the special report of Grant Thornton LLP, Minneapolis, Minnesota, Certified Public Accountants (the *Accountants*); customary certifications and opinions of officials of the City; certificates executed by officers of the City relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City, and to certain other facts within the knowledge and control of the City; and such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the levy of an ad valorem tax, within the limitations prescribed by law, upon all taxable property in the City.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the ordinance authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon the representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds and the report of the Accountants, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

Legal Opinion of Fulbright and Jaworski L.L.P. and Escamilla & Poneck, Inc. in connection with the authorization and issuance of "CITY OF SAN ANTONIO, TEXAS GENERAL IMPROVEMENT REFUNDING BONDS, SERIES2003"

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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